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Investment Facility

ACP-EU Cotonou Partnership Agreement

Annual Report 2005

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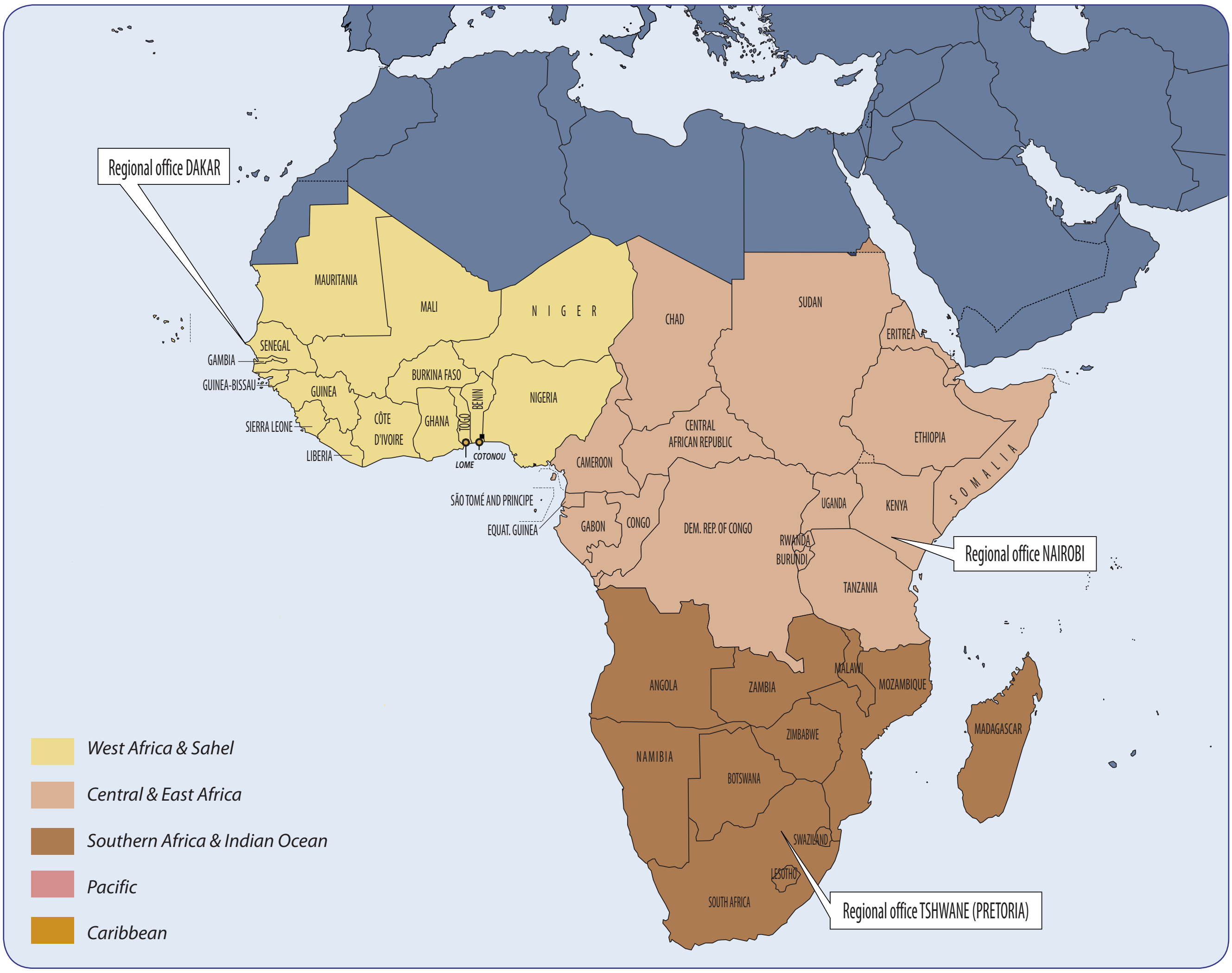
Map of ACPs and OCTs



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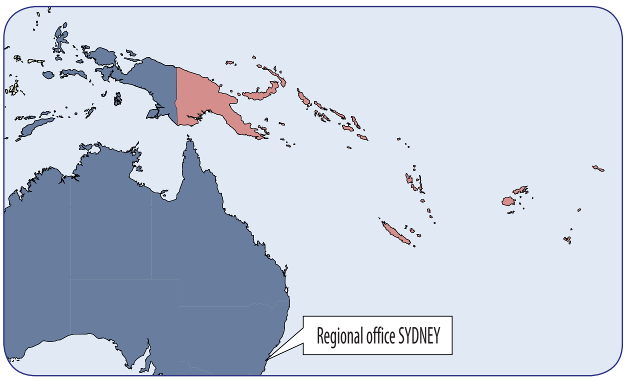


Caribbean

Mission of the Investment Facility

The ACP Investment Facility is a key financial instrument of the EU-ACP Cotonou Partnership Agreement signed in Cotonou on 23 June 2000, as amended by the revised Agreement signed in Luxembourg on 25 June 2005.

In accordance with the terms of the revised Cotonou Partnership Agreement, the Investment Facility shall operate in all economic sectors and support investments of private and commercially run public sector entities, including revenue-generating economic and technological infrastructure critical for the private sector. The Facility shall:

- be managed as a revolving fund and aim at being financially sustainable. Its operations shall be on market-related terms and conditions and shall avoid creating distortions on local markets and displacing private sources of finance;
- support the ACP financial sector and have a catalytic effect by encouraging the mobilisation of long-term local resources and attracting foreign private investors and lenders to projects in the ACP States;
- bear part of the risk of the projects it funds, its financial sustainability being ensured through the portfolio as a whole and not from individual interventions; and
- seek to channel funds through ACP national and regional institutions and programmes that promote the development of small- and medium-sized enterprises (SMEs).

The parallel OCT Investment Facility was set up in accordance with the Council Decision of 27 November 2001 on the association of Overseas Countries and Territories (OCTs) with the European Community with the aim of promoting commercially viable enterprises, mainly in the private sector but also those in the public sector supporting private sector development in the 20 OCTs situated in the Caribbean, the Pacific, and the north and south Atlantic Oceans that are eligible for European Community financial assistance.

Both the ACP and OCT Investment Facilities (IFs) are risk-bearing instruments whose mission is to be prepared to invest in a context where private sector investors are reluctant to do so and, thereby, to aim to fill financing gaps in the market. In doing so, they must balance responsiveness to opportunities with the obvious duties of scrutiny and accountability that go together with the management of public funds.

In line with the aims and objectives that were expressed by the international community in the UN Millennium Development Goals, the IF pays particular attention to the broader development impact of the various investments it makes and especially supports those that promise appreciable social, economic or environmental benefits.

Summary highlights and key figures 2005

- Given the challenging environment in which the IF operates, results achieved so far are encouraging. The IF has now reached its cruising speed and has developed a balanced portfolio of investments both in terms of sectoral and geographical diversification, with a number of operations being characterised by innovative features compared to traditional lending activities.

- Both infrastructure, which is widely recognised as a prerequisite for economic development, and the financial sector, involving both enhancement of the sector and the funding of small projects, SMEs and micro-enterprises, now appear prominently in the portfolio.

- By the end of 2005, after just over two and a half years of operations, the IF had committed EUR 829m or 41% of its EUR 2 037m initial capital endowment, corresponding to 48 projects financed in 23 different countries spread across the ACP region. Of these 48 projects, 13 had a regional scope: 4 covered the whole of the ACPs, 7 focused on Africa and 2 targeted investments in the Pacific and Caribbean respectively. In addition a total of EUR 301m of financings had been approved but not yet signed.

- Commitments signed during 2005 totalled EUR 351m for the financing of 25 projects located in 15 different countries, of which 5 projects had a regional scope.

- Disbursements equivalent to EUR 211m on a cumulative basis were made, representing 25% of contracts signed to date and corresponding to 24 projects, of which 7 have now been fully disbursed.

- The Bank also committed own resources of EUR 219m for 9 different projects, with disbursements so far totalling just over EUR 20m. This brings the Bank's total commitments and disbursements under the Cotonou Agreement to EUR 1 048m and EUR 232m respectively.

- The June 2005 signature of the revised Cotonou Agreement introduced greater flexibility in the financing of public sector (mainly infrastructure) projects in HIPC or other countries pursuing economic adjustment. This allowed the Bank to commit EUR 38m of the EUR 187m interest subsidies appropriation under Cotonou, for 6 projects requiring sufficiently concessional resources in countries facing debt sustainability constraints.

- The Bank officially opened its first three regional offices in the ACPs in Nairobi (Central and East Africa), Dakar (West Africa) and Tshwane (Pretoria) (Southern Africa and Indian Ocean). The official ceremonies took place in the presence of Kenya's Minister for Finance, the Hon. David Mwiraria, His Excellence Mr Abdoulaye Wade, President of the Republic of Senegal, and Dr Tomaz Salomao, Executive Secretary of the Southern African Development Community (SADC) respectively.

- The opening of regional offices in Fort-de-France for the Caribbean region and in Sydney for the Pacific region is due to take place in 2006.

- During the course of the year, major steps were taken in the field of increased coordination and collaboration with other donors, notably with the European Commission in the framework of the EU-Africa Partnership for Infrastructure, and also with the signature of a Memorandum of Understanding with the Commission and the African Development Bank.

- By the end of 2005, a total of 68 staff were directly assigned to operations in the ACP countries in the ACP-IF Department, of which 6 were based in the regional offices.

Contents

Investment conditions in the ACPs

Following the high economic activity levels encountered in most regions of the world in 2004 – including the ACPs – the global rate of growth slowed down somewhat during 2005 to values closer to the historical average of around 4 percent. Although the level of activity in developing and emerging markets was robust, a significant number of countries in the ACPs remain dependent on the support and commitment of the international community to make decisive strides towards poverty eradication.

Sub-Saharan Africa continued to enjoy sustained growth, with an average of nearly 5 percent in 2005. Even though it did not compare to the rapid pace of growth in other developing countries, notably that of some developing Asian economies, a similar performance had not been witnessed for a very long time. Apart from broadly supportive global economic conditions, growth in the region was driven by a number of factors stemming from purely internal circumstances:

- the easing of conflicts in a number of countries – such as Burundi and the Central African Republic – even though the Darfur region of Sudan, Côte d'Ivoire, Zimbabwe, parts of the Democratic Republic of Congo and Uganda were still affected by continued turmoil;
- the successful implementation by a number of countries of the necessary reforms to reach their HIPC completion point, with debt relief supporting macroeconomic stability;
- the coming on-stream of new oil fields in Southern and Central Africa together with a recovery in agricultural production in East and Central Africa.

Almost all countries in the region (except for Côte d'Ivoire, Zimbabwe and the Seychelles) are currently enjoying positive growth, although cross-country distribution was uneven – with oil producers, where output growth reached 6.8 percent, showing the largest increases. Production capacity received a significant boost as new fields came on–stream in Nigeria, Angola, Chad, the Republic of Congo and Equatorial Guinea. Departing from past practices, and in line with a much sought increased transparency of oil sector operations, most oil- producing countries used the increased revenues to improve their fiscal positions, either by reducing domestic and external arrears (Angola, the Republic of Congo, Gabon and Nigeria) or by repaying expensive foreign loans (Angola and Gabon). Nigeria has followed the example of Chad in channelling additional revenue from oil into a stabilisation fund[1]. Overall, the rather restrained response of the vast majority of oil producers to the largely unexpected cash inflows from oil provides support for a positive near-term outlook. Sub-Saharan Africa is certainly emerging as a significant oil supplier, with continuing capacity increases scheduled in the years ahead.

Among the major sub-regions in sub-Saharan Africa, West Africa is the only one that did not share the broadly healthy and otherwise homogeneous activity levels across the continent. Beyond the fact that the number of West African countries in conflict or with fragile security conditions is quite significant, the economies of four West African countries

[1] Chad's Oil Revenue Management Law was the centrepiece of, and basis for, the co-financing by the World Bank and the EIB of the Chad-Cameroon Pipeline, which enables Chad to export its oil production. However, the unilateral change to this law by the Chad Government at the beginning of 2006 resulted in a major crisis between the World Bank and the Government, as a result of which cofinanciers have suspended their loan. Discussions aimed at finding a solution are under way.

(Benin, Burkina Faso, Mali and Togo) are largely dependent on cotton and were negatively impacted by the sharp decline – nearly 40 percent in euro terms – in cotton prices in 2004, which was not fully compensated by the 20 percent recovery recorded in 2005. Also, the members of the CFA franc zone have lost considerable competitiveness with the depreciation of the US dollar against the euro, to which their currency is pegged. In fact, the CFA zone economies are increasingly dependent on dollar-zone markets, the United States and Asia. While the depreciation has worked as a partial buffer in the case of oil prices, it has also prevented the exporting sector in those countries from benefiting from the price increases that most commodities – other than cotton – enjoyed in 2004. Finally the locust infestation – the worst in 15 years – that affected many countries in the region had a major impact on the livelihood of those populations dependent on subsistence farming.

By contrast, most economies in Central Africa, the performance of which is largely dictated by oil prices, achieved reasonably good results, whilst growth in the East Africa region was the result of sound policy frameworks, notably in Tanzania and Uganda, a tourism revival determined in Kenya by a redirection of flows moving away from tsunami affected areas and bumper harvests supported by relatively favourable weather conditions in other countries. The Southern African regional economy continues to be driven by the performance of the South African economy. In addition to South Africa, Angola – driven by oil price developments – and Mozambique – fostered by a sound policy framework – are also putting in good growth performances, although in the case of Mozambique the current account and fiscal deficits remain an issue. Botswana and Namibia continue to be examples of economic stability in the region.

Overall, growth prospects for sub-Saharan Africa have not been this promising for a number of years. However, political and economic risks remain pervasive, as evident in Côte d'Ivoire, Zimbabwe and the Great Lakes region. Besides, the

relative lack of diversification of most economies in the region makes them vulnerable to natural disasters, notably droughts, commodity price fluctuations and the reduction of trade preferences. For example, textile exports are quite important for the economies of a number of African countries and the removal of trading quotas on textiles and clothing as from 1 January 2005 is expected to dampen economic growth in the region over the medium term.

Over the past few years, **Caribbean countries** have been faced with a difficult economic environment in spite of overall GDP growth of 3.7 percent in 2005, up from 2.7 percent in 2004. However, this recovery took place against the backdrop of weak public finances across the region, raising concerns about the sustainability of public debt. Furthermore, preferential access for Caribbean countries to external markets has started to erode following World Trade Organization rulings against such preferential trade agreements, and the traditional sugar and banana industries of many of the Caribbean states are coming under significant pressure. For example, the recent announcement by St Kitts and Nevis that it will be ending sugar cane production after this year's harvest will force the redeployment and retraining of much of the workforce. On the positive side, Trinidad and Tobago is currently enjoying an economic boom, largely associated with its oil and gas resources. The country – already the largest supplier of liquefied natural gas to the United States – is determined to build on its past success and plans to pipe natural gas to other Eastern Caribbean islands.

Another major challenge for much of the Caribbean in 2005 was to recover from the impact of the losses resulting from the dramatic 2004 hurricane season. Grenada withstood extensive losses estimated at nearly double the country's GDP, and the Cayman Islands, the Bahamas, the Dominican Republic and Haiti also suffered extensive damage. The tourism sector is providing some much needed support.

In the **Pacific**, economic activity remains vulnerable to external conditions, namely extreme weather and the prices of a few commodities, whether agricultural (notably copra) or mineral (copper, gold and nickel in the case of Fiji, New Caledonia and Papua New Guinea). However, it is the sharp increase in oil prices over the last few years that is having a disproportionate impact on the growth performance of the region. On the one hand, in the two oil-exporting countries (Papua New Guinea, the largest economy in the Pacific region, and East Timor) economic growth has surpassed expectations, supporting an improvement in the fiscal positions and a strengthening of gross foreign reserves.[2] On the other hand, for non-oil producers such as Fiji – the region's second largest economy – oil prices have dampened growth prospects. The fiscal impact is also considerable, not only because transportation costs in these scattered island countries are typically subsidised, but also because some public enterprises that use petroleum products have been barred from passing on the full cost increases to consumers.

One of the most positive developments for Pacific economies over the last few years is the upsurge in the number of tourism arrivals, supported by a post 9/11 increase in demand for these destinations as well as by improved marketing and the entry of low-cost carriers to some countries. Furthermore, a few high-end resorts have been added to the existing capacity. Similarly, fishing is increasing its contribution to economic activity through an expansion in the number of fisheries and is a key issue in

the negotiation of free-trade agreements and further aid support from the European Union. In contrast, the end of the Multifibre Arrangement in January 2005 is having a more negative impact than previously expected on the garment industry across the region – notably in Fiji, but also in smaller countries such as Palau and Tuvalu.

[2] An important development for East Timor was the announcement in July 2005 of an agreement with the Australian Government regarding the division of royalties from oil and gas reserves in the Timor Sea.

Institutional framework

The Investment Facility (IF) is a risk-bearing, revolving instrument established under the Cotonou Partnership Agreement and in accordance with the OCT Council Decision of 27 November 2001 to promote the development of the private sector and commercially run public enterprises in the seventy-eight[3] countries that make up the African, Caribbean and Pacific (ACP) group and as the 20 Overseas Countries and Territories. It is funded by the European Union's Member States' contributions and is managed under mandate by the European Investment Bank (EIB).

EIB Offices in Luxembourg

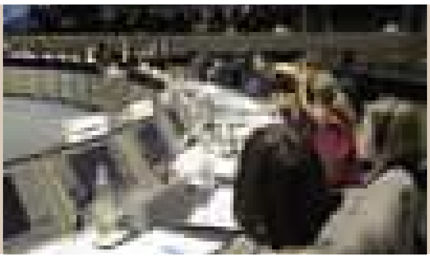
Over the years, the EIB has acquired extensive knowledge of the ACPs and the OCTs, their investment climate and the real risks of operating in these countries. As a result of this, as well as its considerable expertise in lending to the private sector, the Bank has been entrusted with a mandate to manage the IF in the overall framework of supporting EU development and cooperation policies in the ACPs under the Cotonou Partnership Agreement.

The EUR 2 037m IF is supplemented by an envelope of up to EUR 1.7 billion and EUR 20m from the Bank's own resources for the ACPs and the OCTs respectively. Operations carried out under the Bank's own resources are ultimately covered by a guarantee of the Member States.

IF operations and own resources loans are complemented by an interest rate subsidy appropriation of some EUR 187m, the purpose of which is to increase their concessionality under certain specific conditions. Following the renegotiation of the Cotonou Agreement, which was finalised in early 2005, and the signature of the revised Cotonou Agreement in June 2005, the scope for interest subsidies has been widened to ensure that the IF is in a position to offer terms that are sufficiently concessional whenever required, especially in countries subject to restrictive borrowing conditions. Consequently, interest rate subsidies now apply in the following instances:

- *"For infrastructure projects in the Least Developed Countries, in post-conflict countries and post-natural disaster countries... that are prerequisites for private sector development...;*
- *For infrastructure projects by commercially run public entities that are prerequisites for private sector development in countries subject to restrictive borrowing conditions under the Heavily Indebted Poor Countries (HIPC) initiative or another internationally agreed debt sustainability framework…;*
- *For projects that involve restructuring operations in the framework of priva-*

[3] *There were originally seventy-seven ACP signatories to the Cotonou Agreement. East Timor signed subsequently and became the seventy-eighth member. The Republic of South Africa is a signatory of the Cotonou Agreement but does not participate in the Investment Facility. Cuba is the seventy-ninth member of the ACP Group but not a signatory to the Agreement.*

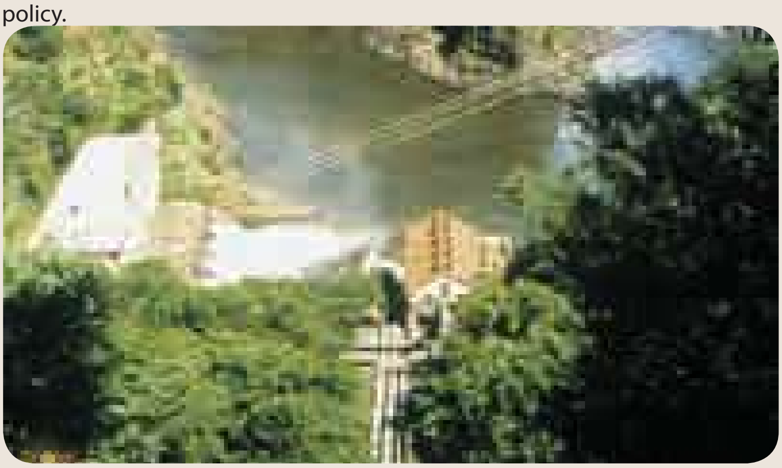


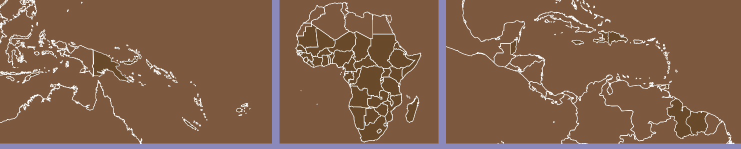
tisation or for projects with substantial and clearly demonstrable social or environmental benefits..."

Responsibility for setting the policy and overall direction of the IF rests with the Bank's Management Committee and Board of Directors, in close consultation with the IF Committee. The latter consists of representatives of the Member States, the Commission and the Council, with the Committee Secretariat provided by the Bank. The IF Committee, the members of which are individually nominated by their governments, provides guidance on the IF investment strategies and policies, based on proposals from the Bank. As such, it plays a key role in the Facility.

In line with the role provided to it in the IF Operational Guidelines, the IF Committee continued to give guidance to the Bank in its efforts to strike an appropriate balance between two key objectives: to take risks which other market participants would not usually contemplate, in the broad interests of the development of the ACP countries and the OCTs, yet at the same time to aim at being financially sustainable, namely to maintain the value in real terms of the capital endowment of the IF. During 2005, the IF Committee contributed to the revision of the IF Credit Risk Policy Guidelines and Procedures and approved the IF Private Equity Strategy paper.

The Ethiopian Government considers the expansion of access to electricity as a sine qua non for the achievement of the Millennium Development Goals and has entrusted the Ethiopian Electric Power Corporation (EEPCO) with the task of implementing the national energy policy of doubling generating capacity by 2010. Whilst domestic long-term funding is not available, the country is nevertheless constrained by the issue of debt sustainability in the framework of the HIPC initiative. The ability of the IF to provide long-term funding – alongside a subsidised loan from the Italian Cooperation Agency – on highly concessional terms that meet the HIPC constraints, represents a significant element of financial value added. This financial package will be utilised for the financing of the construction and operation of a reservoir-type hydro power scheme with an installed capacity of 428 MWe in the Gilgel Gibe river system, as well as a related transmission system. This project is cascaded from the first, recently commissioned, **Gilgel Gibe II Hydropower Plant project**. Expansion of hydro generation capacity will help to replace less environmentally attractive plants and meet rapidly growing demand. In the context of the country's wider programme of investment in the electricity supply system, economic and social benefits will be created in a situation where only a small part of the population is currently served. By developing indigenous renewable energy resources, the project will contribute to the reduction of atmospheric emissions of thermal generation alternatives, thereby also supporting the EU's and the Bank's environmental policy.





Operations in 2005

Midway through the implementation of the first Financial Protocol to the Cotonou Agreement, the IF has now reached its cruising speed. Given the overall difficult environment in which the IF operates, the results achieved so far, especially during 2005, are encouraging both in terms of lending volume and in terms of geographical and sectoral diversification of the portfolio, whilst certain operations finalised during the year were characterised by a number of innovative features compared to the Bank's traditional lending activities. The Bank also made good progress in implementing its new Development Impact Assessment Framework, the first results of which are expected to be available during the course of 2006. This represents a further step in ensuring that the IF projects do contribute to sustainable development.

Signatures for the year totalled just over EUR 351m for the financing of 25 projects located in 15 different countries, of which five projects equivalent to EUR 34m had a regional scope. Nearly 40% of these commitments went to projects located in the Central and East African regions, notably for energy in Ethiopia and Kenya, and for an industrial project in Chad. West Africa was fairly active with total commitments of EUR 97m, corresponding to 10 projects in the financial, industrial and mining and energy sectors. Commitments for the Southern Africa and Indian Ocean region totalled EUR 68m and targeted investments in the services (tourism), industrial and mining and energy sectors. Financings for the Caribbean and Pacific regions amounted to EUR 45m for lines of credit to the financial sector.

This brings the IF's cumulative commitments over the period 2003-2005 to EUR 829m, to which should be added financings approved but not yet signed totalling EUR 301m.

Funds committed during the year concerned the following projects:

- With the **Aqualma III** operation, the Bank is further supporting the development of Madagascar's shrimp farming industry. Shrimp aquaculture can be considered a success story for Madagascar and has allowed it to develop a non-traditional export product, which has become one of the country's most important sources of foreign exchange earnings. The project concerns the extension and rationalisation of two shrimp farms and processing facilities. The provision of financing by both the IF and Proparco, which is

Under the **Albion Resort Mauritius** project, the IF is offering a financial package comprising a senior loan and equity for the financing of a new high-end 266-room Club Méditerranée beach resort hotel located on Mauritius's west coast, alongside equity from Proparco and senior debt from the Mauritius Commercial Bank. This operation clearly illustrates how the IF can fulfil its task of promoting private sector activities that add value to local resources. The tourism industry is a driving force in Mauritius's economy and is a major provider of employment in the country. Both the IF and Proparco's long-term funding usefully complement local funding, which remains constrained by limited long-term resources.

co-financing the project, is again a welcome source of long-term funding, as such funding is not available locally. Significant economic benefits are expected from continued foreign exchange earnings and from job creation and stabilisation as well as improvements in terms of health and education in some of the most isolated areas in Madagascar.

- The IF participated in the establishment of the **Banque Régionale des Marchés** (BRM), the first merchant bank to be established in the West African Economic and Monetary Union (WAEMU), focusing mainly on capital markets. This operation will contribute to the modernisation of the region's financial sector while widening the range of financing instruments available to local investors, thereby supporting economic development. The IF financing package comprises an equity participation of up to 20% of the share capital, alongside a similar investment by the West African Development Bank (BOAD) and a participating subordinated shareholders' loan.

The **BIMAO** (Banque des Institutions Mutualistes d'Afrique de l'Ouest) operation is the first IF guarantee in favour of micro-finance. The IF will guarantee the medium and long-term loans extended to BIMAO by Senegalese commercial banks, in parallel with a similar guarantee by the AFD. The support of both the IF and AFD, combined with a strategic, financial and technical partnership with the French Crédit Mutuel Group, is essential for this fairly recently established institution to raise longer-term funds locally and develop its activities. These will include the provision of medium and long-term finance to successful micro-finance institutions in the region, as well as financial services that are not usually available to them, such as international payment facilities.

- The IF is participating in the **Capital Alliance Private Equity Fund II (CAPE II)** established to make equity and quasi-equity investments in small and medium-sized companies operating essentially in Nigeria, but possibly also in neighbouring West African countries. This operation will allow the further development of activities successfully started under the first fund (CAPE I). Alongside local investors, the IF will co-finance the fund with the CDC, FMO and IFC. This operation will complement other IF operations in the country and in the region (e.g. the Aureos West Africa Fund and the Nigeria SME Facility) by providing risk capital, which is still in limited supply in the country. It will thereby contribute to the development of Nigeria's private sector, SMEs in particular, with the creation of jobs and the generation of fiscal revenues, and of its financial sector.

- The **Cape Verde Financial Sector II Global Loan** is building on the success of a previous similar operation financed by the Bank under Lomé IV and will further contribute to improving the efficiency of the banking sector and to providing long-term financing resources for SME investment projects in a country where economic growth has been strong. The operation will allow local banks to diversify their funding base (the country's financial system is highly dependent on emigrants' remittances), whilst helping to spur competition among banks and develop financial intermediation.

The **Dangote Cement** project entails the construction and operation of a new cement plant on a greenfield site located at Obajana (Kogi State) in the centre of Nigeria. The plant, with a capacity of 4.4m tons per annum, will be for supplying the domestic market, thereby substituting about 60% of current cement imports and saving Nigeria over USD 500m a year in hard currency. Adequate measures have been taken to optimise the social development impact of the project through a Community Development Plan tailored to the various micro level interests of the local community, and the promoter will contribute to the establishment of social facilities. The Bank is providing a US dollar-denominated financing package of senior and subordinated loans from both its own resources and IF resources, in co-financing with a consortium of major international and Nigerian financial institutions, including IFC, Africa Merchant Bank/Banque Belgolaise and FMO as well as First Bank of Nigeria PLC in its capacity as arranger of the local banks' tranche.

- The IF is supporting the integration of financial markets in the Caribbean region through the **Clico Global Loan** operation, whereby it is making available to the Trinidad and Tobago-based Clico Investment Bank Ltd a line of credit for on-lending for small and medium-sized private and commercially run public sector projects in the countries of the Caribbean that are signatories to the Cotonou Agreement. This operation will improve and broaden long-term financing opportunities for SMEs in the region, including in the non-energy sectors, as tenors above 5-6 years in the major currencies are only available to a limited extent.

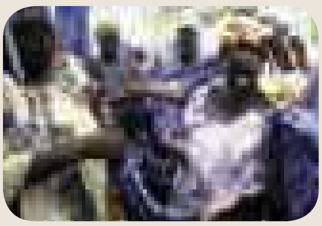
- The **Compagnie Sucrière du Tchad** (CST) project involves the modernisation and extension of a sugar complex consisting of an irrigated sugar cane plantation, and a sugar factory and refinery in southern Chad. The project also comprises minor investment in renovating a confectionery and agglomerates factory. The IF is providing, alongside Proparco and DEG, a guarantee for a long-term loan granted by a syndicate of Central African Economic and Monetary Community (CEMAC) banks. The value added of this operation is one of classic credit enhancement, while the granting of a subsidy by the IF provides for the financing of important environmental and social investments by CST by contributing to improved healthcare and schooling facilities for the communities in the region.

- The IF is supporting the re-establishment of the **Dakar-Ziguinchor Sea Link** in Senegal. The proceeds of the IF-subsidised loan will be used by the Senegalese Government for the purchase of a passenger and goods ferry, which will be run by a private operator and provide a link between Dakar and the Casamance region, an essential complement to the road connection through Gambia. The re-establishment of this link is strongly encouraged by the international community to support the economic and social revival of the Casamance region. Besides the IF loan, the financing package comprises grant funding from KfW and AFD, which, by reducing the cost of funding, enables Senegal to remain in compliance with its undertakings in the framework of the HIPC initiative.

- The **Development Finance Limited (DFL) IX Global Loan** focuses on the financing of private sector projects in the countries of the wider Caribbean region. The Bank is already a shareholder in the Trinidad and Tobago-based intermediary, DFL, which is beginning to target the smaller end of the SME segment. This operation will improve the availability of and access to foreign currency term loans by small and medium-sized enterprises and supports the regional ambitions of the intermediary, which initially focused mainly on Trinidad and Tobago. The flexible nature of the IF financing will allow DFL to complement its existing local currency funding raised through local bond issues.

- The **El Aouj SA** equity investment involves the funding of a bankable feasibility study on exploitation of the Guelb el Aouj deposit in Mauritania, with a view to deciding whether it is worth proceeding with the establishment of a new low-grade iron ore mine and subsequent processing infrastructure designed to produce direct reduction grade pellets for the North African and Middle Eastern iron and steel markets.

Through the **La Fayette Investissements** project, the IF is providing equity to a new investment fund dedicated to micro-finance institutions located predominantly in Africa's low-income countries, which are among those affected by acute widespread poverty. In investing in these countries, the fund will not only provide finance to populations not currently catered for, but also contribute to the strengthening or emergence of viable local financial institutions. Other shareholders in the fund are KfW, AFD, FMO, IFC and Horus Finance & Development, the French-based micro-finance technical assistance and services company, which will also act as manager of the fund.



- The **Gilgel Gibe II Hydropower Plant** project concerns the construction and operation of a second medium-scale hydro power plant on the Ethiopian Gilgel Gibe river system, with an installed capacity of 428 MWe. It will help to replace less efficient, aging thermal plants and meet rapidly growing demand. The subsidised financing from both the IF and the Italian Cooperation Agency will provide long-term resources on terms that do not impair the debt sustainability of Ethiopia as a HIPC country.

- The **Grenlec III** project consists of the expansion of the Grenada power utility's generation capacity, in the framework of a long-term plan to modernise its equipment initiated by the company at the time of its privatisation. The project, which entails the installation of two new generators with a capacity of 7.5 MW each, will help to meet growth in electricity demand and partly replace obsolete and less efficient equipment, thereby improving the quality of Grenada's power system. This will in turn support the further economic development of the island and, in particular, sectors such as tourism and SMEs. The IF loan will contribute to the viability and sustainability of the project and the promoter and provides continued support to Grenlec, which is not yet in a position to raise debt locally on favourable terms.

- The **Moma Titanium** project is the last tranche of a project approved and partly signed in 2004 for the financing of Kenmare Resources plc's investment in the mining and processing of heavy mineral sands (for the production of ilmenite) in northern Mozambique. After some delays in finalising the financial package, project implementation is now taking place as scheduled and in line with budget forecasts. Commissioning of the plant is due to take place in the first quarter of 2007.

- The financing of the first phase of the rebuilding and modernisation of the Mufulira **Mopani Copper** smelter in Zambia illustrates the IF's focus on supporting development through private sector, commercially run enterprises by providing long-term financing that is not available in the local banking market. The project will replace obsolete equipment, increase smelting capacity and significantly reduce dust and SO_2 emissions. As one of the two copper smelters in Zambia, the project will maintain and expand the local capacity to process concentrates from mining activities in Zambia's copper belt, while contributing to the creation and stabilisation of employment in the region.

- Through the **Niger – Financial Sector Global Loan II**, the IF is making available long-term resources in local currency, which will help improve access to long and medium-term bank financing for private companies, mainly SMEs and micro-enterprises, to carry out their investment projects. Whilst encouraging diversification of funding sources in the financial sector, this facility will provide opportunities for existing enterprises to develop their activities, and promote the start-up of new businesses. This operation will also complement lending by other institutions, notably the European Commission, aimed at building an institutional and legal framework conducive to enhancing the performance of the business sector by harnessing the most dynamic institutions in the financial sector.

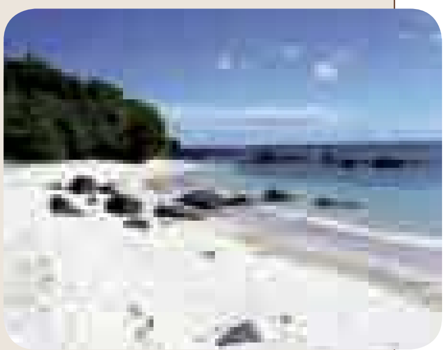
- The IF loan facility for the **Olkaria II Extension** geothermal power station in Kenya will be made available directly to Kenya Electricity Generating Company Ltd (KenGen) alongside a contribution from the World Bank (IDA), which will be lending via the Government of Kenya. The project comprises the drilling of wells, the extension of the existing power station building, substation and switchyard, and the installation of a 35 MW steam turbine. While supporting the use of an indigenous source of renewable energy, the project will also increase the supply of electricity, help improve the environment for economic activity in Kenya and enhance the population's access to electricity. It is part of a comprehensive development programme under the aegis of the World Bank to improve the efficiency of the power sector and promote its long-term viability. This programme also entails the upgrading and extension of the distribution network, which the IF is financing under the **KPLC Grid Development** project through a subsidised loan made to Kenya's electricity distributor via the Government, alongside contributions from the World Bank (IDA), AFD and the Nordic Development Fund. Through the provision of the necessary interest subsidy, the Bank is simultaneously supporting the continued availability of long-term funds for public sector investment in Kenya and the sustainability of the country's external debt in the framework of the IMF Poverty Reduction and Growth Facility.

The Bank's own resources

Signatures under the Bank's own resources mandate in the ACPs totalled EUR 151m. Apart from the **Dangote Cement** project in Nigeria mentioned above, where two own resources senior loans of EUR 58m and EUR 33m complemented an IF subordinated loan, the other operations concerned were:

- a EUR 20m global loan in favour of the **State Bank of Mauritius** Ltd (SBM), aimed at making available to private sector or commercially run public sector companies long-term funding primarily at fixed interest rates in foreign currency, thereby filling a gap in Mauritius's financial sector by offering terms better suited to the needs of a number of investment projects, especially with respect to duration. This global loan supplements the Bank's major direct lending programme for large-scale projects in the private and public sector by enabling the Bank to support projects that are either too small for direct involvement or can be covered more efficiently via a solid local financial intermediary;

- the EUR 40m global loan to the **Caribbean Development Bank** (CDB) will support its lending and investment operations in the Caribbean region and contribute to the objective of regional integration, which is at the heart of EU policy under its various development mandates. The CDB is a key player in this process in the Caribbean and the availability of this line of credit will provide flexibility to the CDB's funding strategy whilst helping to increase its lending to the private sector. It will also give the Bank access to the CDB's regional project financing network either through direct lending operations by the CDB or via its own financial intermediaries in the region through which the Bank's loan can be cascaded.



A table summarising the portfolio of own resources operations in the ACPs is attached in Annex 2.

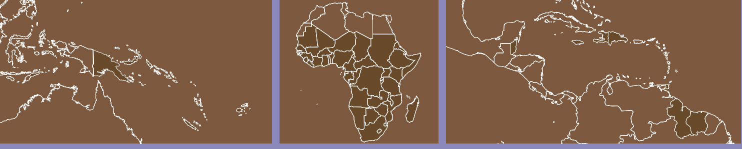
- **The Seph-Nouadhibou** project in Mauritania concerns the construction and operation of a fish-processing factory in Nouadhibou. The project, which will be financed through a US dollar-denominated loan from the IF in co-financing with the OPEC Fund, will be one of the pilot projects for the industrialisation of Mauritania's fishing industry, which is considered one of the catalysts of growth for the country's development and will increase its foreign currency earnings. It will have a sizeable positive impact on employment, especially by creating important employment opportunities for women and supporting the local fishing community.

- The Volta River Authority is benefiting from a subsidised loan for financing the reinforcement of the power transmission system with a 330 kV transmission line between Aboadze and Tema in Ghana (**VRA VII** project). The IF financing will be made available through the Government, for on-lending to VRA, alongside contributions from the World Bank (IDA), the Kuwait Fund and VRA's own funds. The project forms part of the West African Power Pool (WAPP) initiative, involving power utilities and interested donors under the Chairmanship of the ECOWAS Secretariat, which the Bank is actively supporting. It contributes to the stability of the grid and reduction of transmission losses in a context of growing electricity demand, while the terms of the financing (long-term and concessional) provide a source of funding that is not readily available locally and does not impair the country's debt sustainability.

The Samoa Development Bank and the Tonga Development Bank are the first intermediaries to benefit from the **Pacific Islands Financing Facility**, the purpose of which is to enable several development banks in the Pacific region to provide long-term funding for small operations, including micro-finance, in the form of debt finance. This operation will support the development of a dynamic SME sector, which is vital to long-term economic growth and improved quality of life. By extending its scope to micro-sized companies, the facility will also provide access to suitable credit facilities for the less privileged sections of the population, thereby contributing further to poverty reduction in the region.

- The **Zesco Kariba North II** operation complements a first operation with the Zambia Electricity Supply Corporation (Zesco Ltd), Zambia's electricity utility, part-financed by the Bank in the context of a sector-wide reform programme initiated in 1998 under the aegis of the World Bank. The project consists of the rehabilitation of two out of four generating units at Kariba North hydropower plant in the south of Zambia, on the border with Zimbabwe, the other two units having been completely refurbished under a previous EIB-financed operation. With this project, the rehabilitation of all four units of the power station will be complete and their capacity increased in order to meet growing electricity demand at a competitive cost. The project, involving the efficient use of renewable energy resources, will also reduce regional dependence on fossil fuels for electricity production. Together with the Development Bank of Southern Africa, the IF is offering financing terms, i.e. a tenor of 15 years, which cannot be obtained on the local banking market.

A table summarising the portfolio of IF lending is attached in Annex 1.



Financial instruments

One of the reasons for the relatively low level of investment in most ACPs is the fact that investors often perceive risk as being too high. A key source of the value-added of the IF stems from its nature as a risk-sharing facility, i.e. its ability to offer an extended range of flexible financial instruments – denominated in EUR, other widely traded currencies or even local currencies – that can be used in supporting the financing of development projects.

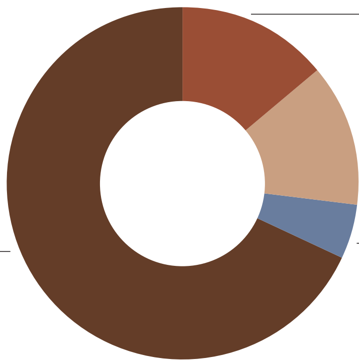
The **Aureos West Africa Fund** targets private sector enterprises based in the ECOWAS region, focusing mainly on Nigeria, Ghana and Senegal. It concentrates on equity and quasi-equity investments in SMEs. By the end of 2005, it had invested some USD 17.3m – i.e. 35% of its committed capital of USD 50m, to which the IF is contributing an amount of USD 8.75m – in six different ventures, located in Nigeria, Ghana and Togo and operating in financial services, real estate development, agro-industry, manufacturing industry and the energy sector.

These are:
- ordinary or senior loans
- junior or subordinated loans
- quasi-equity through participating, conditional or convertible loans
- equity (direct and indirect)
- guarantees.

In order to preserve its overall financial viability, the IF operates according to specific credit risk policies which, while reflecting best banking practice, take into consideration the IF's development objectives as well as its remit to operate in all ACP countries and OCTs and the resulting need to apply those policies with sufficient flexibility. This, in turn, requires proactive monitoring of the IF exposure, in particular – but not exclusively – of the various risk-bearing instruments that the IF uses in the course of its operations.

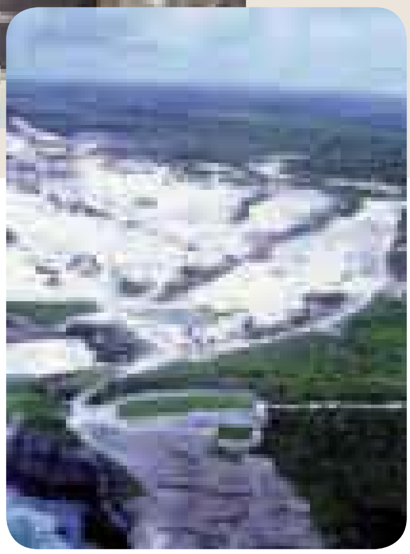
Equity is a powerful instrument to support the growth of companies and economic development in general as it provides a cushion of long-term funding, which can be leveraged with debt. It also offers the investor the prospect of higher returns. The IF's strategy is to seek to progressively develop and manage a portfolio of equity investments that includes a mix of both direct and indirect invest-

Breakdown by type of financial instrument (01/04/2003 - 31/12/2005)



The **Banque Régionale des Marchés** (BRM) is the first merchant bank to be established in the West African Economic and Monetary Union (WAEMU) focusing mainly on capital markets. The bank will be based in Dakar. Whilst concentrating initially on the Senegalese market, it will subsequently expand to other markets of the WAEMU, thereby playing a leading role in the transformation and modernisation of the region's capital markets. The IF financing package comprises an equity participation of up to 20% of the share capital and a participating subordinated shareholders' loan. The West African Development Bank (BOAD) is also participating through equity. Both the EIB's and BOAD's involvement strongly support the regional orientation of this initiative and will act as a catalyst for other institutions to participate in the medium term.

Westin Macao Resort – Dominican Republic



ments as well as of both large, stable companies and some more innovative and higher-risk investments, the latter being very important to the long-term development of the private sector in the ACPs. The IF is investing both directly in companies and indirectly through suitable intermediaries such as private equity funds. By the end of 2005, equity investments accounted for 13% of the IF portfolio, ranging from a direct investment in a new high-end Club Méditerranée beach resort hotel in Mauritius to a new investment fund dedicated to micro-finance institutions located predominantly in Africa's low-income countries (La Fayette Investments).

Quasi-equity and subordinated loans accounted for some 14% of the IF portfolio at the end of 2005, very much used by the Bank under Lomé. They remain useful instruments which the IF can deploy to achieve the catalytic objective of enabling other lenders such as commercial banks to support investment projects with debt financing, particularly in cases where a project sponsor has limited capacity to raise sufficient new ordinary equity.

Progress was made during the year in developing **guarantee instruments**, which constitute an obvious alternative to direct lending in a number of ACP countries where there is no absolute shortage of financial resources, but rather a lack of capacity to take on risk or maturity transformation. Thus, they can have a major economic benefit in bridging a confidence gap that could otherwise lead promoters/operators to forgo or abandon long-term investments. Guarantees help to channel external funding to these countries and to mobilise domestic savings on a long-term basis, thus strengthening the local capital markets. By the end of 2005, guarantees accounted for 5% of the IF portfolio.

The IF's ability, in certain circumstances, to provide **local currency financing** is a major value added in meeting the requirements of SMEs and other companies with very little, if any, foreign exchange revenues. Local currency loans, whereby the IF provides loans in the currency of the recipient country and takes on the foreign exchange risk of the operation, accounted for nearly 9% of the IF portfolio at the end of 2005. In return for assuming the foreign exchange risk and to avoid market distortions, the IF receives a premium based on the difference between interest rates in the local market and the euro market.

Global loans as a means of supporting SMEs

For a number of years, the Bank has been using global loans as a means of supplying ACP countries and the OCT with medium to long-term foreign exchange or local currency finance, which is often scarce or non-existent, to promote economic development by financing the fixed capital formation of SMEs. Thousands of ventures have been financed through some 100 financial intermediaries spread across the whole ACP region.

Whilst adopting a more proactive approach aimed at promoting new financial instruments often better suited to local needs, such as equity funds or guarantees, the IF is continuing to offer global loans in a number of countries. By the end of 2005, signed global loans under the IF totalled EUR 186m, i.e. some 22% of the IF portfolio, and nearly EUR 30m had already been allocated to over 80 different sub-projects. The ventures financed through these global loans cover a wide range of sectors, ranging from services (transportation, telecoms, security, tourism) to health and education, agro-industry, urban infrastructure and manufacturing industry.

In Uganda, the **DFCU Leasing Global Loan** was fully allocated and disbursed within just over a year of signature. This EUR 5m local currency loan was used to finance eight Ugandan ventures operating in the telecommunications, transport services, health and education and industrial sectors. Following the success of this operation, a second global loan has been put in place and will be signed shortly.

Niger's financial sector remains one of the least developed in the West African Economic and Monetary Union (WAEMU). Apart from a generally unfavourable investment climate and a certain aversion by banks to the perceived degree of risk, the poor capacity of the financial sector to support investments with appropriate long and medium-term financing is one of the obstacles holding back private sector development in the country. A first global loan, signed under the Lomé IV bis Convention in May 2003, saw a remarkably quick uptake of funds, with a full allocation of the EUR 5m facility within just over two years. This operation represented a quantum increase in the total supply of medium and long-term credit in Niger, a development much welcomed by the Central Bank. The **Financial Sector Global Loan II** operation intends to provide further impetus to this trend. A key element behind the successful implementation of this operation lies with the role played by an EU-sponsored financing support scheme – TANYO – which operates at three levels: (i) selecting and preparing promoters' projects for submission to the intermediary banks, (ii) providing assistance and guidance to the enterprise and its promoter throughout the life of the loan and (iii) guaranteeing half the maximum amount of loans advanced by the intermediary banks. TANYO's cooperation with the intermediary banks and final beneficiaries in preparing good quality dossiers had a marked impact on the allocation process for the first global loan, while the provision of a guarantee and a loan monitoring service greatly reduced the risk in this fairly new lending activity for the intermediary banks. The involvement of TANYO has also enabled the global loan to reach genuine (sometimes semi-informal) SMEs from Niger and aid their progress towards the formal sector. The role of TANYO will be enhanced under the second global loan of EUR 8m which, only a few months after contract signature, has already been allocated to seven different final beneficiaries operating in the services, health and education sectors.
The Bank considers that such a scheme, the result of enhanced cooperation with other donors, including the European Commission and the Centre for the Development of Enterprise (CDE), which is financing technical assistance, could be usefully replicated in other ACP regions.

Statistical overview of IF global loans (all amounts in EUR m)

Country	Name	Date of signature	Signed amount	Amount allocated	Average size of allocation
Burkina Faso	PG Burkina Faso II	08/12/2003	12	3.91	0.206
Cameroon	Développement du Secteur Privé PG II	16/12/2003	28	2.14	0.069
Uganda	DFCU Leasing Global Loan	09/08/2004	5	5.00	0.050
Gabon	Prêt Global II	18/10/2004	10	-	-
Nigeria	Nigeria Global Loan	06/12/2004	50	17.48	2.497
Regional West Africa	BOAD IV B Facilité de Garantie	10/12/2004	25	-	-
Regional Pacific	Pacific Islands Financing Facility Development Bank of Samoa	15/10/2005	7	0.32	0.010
Niger	Niger – PG Secteur Financier II	26/10/2005	8	1.14	0.162
Trinidad and Tobago	Clico Global Loan	03/11/2005	20	-	-
Regional Pacific	Pacific Islands Financing Facility Tonga Development Bank	15/12/2005	6	-	-
Cape Verde	Cap Vert – Secteur Financier PG II	20/12/2005	8	-	-
Trinidad and Tobago	Development Finance Ltd IX	20/12/2005	7	-	-
		TOTAL	**186**	**29.99**	

Whilst the allocation process has not yet started on the more recently signed operations, the current rate of allocation is lower than expected for a number of global loan operations signed in 2004 and even 2003. These concerned mainly countries in either the CEMAC or WAEMU areas – where local banks appear to have excess liquidity, notably through the availability of domestic savings, which is greatly reducing their interest in – and need for – additional funding sources. Furthermore, appropriate benchmarking for pricing such loans is proving to be a key issue to ensuring the successful utilisation of global loans. The BOAD guarantee facility is expected to be – at least partially – issued during the course of 2006, once the Bank is satisfied that BOAD has fulfilled the requisite contractual conditions. As indicated above, guarantees are an obvious alternative to global loans in countries with surplus liquidity and the Bank will continue to promote this instrument in order to avoid committing resources which remain unutilised.

Portfolio overview

Good progress was made during the year in further building up a diversified portfolio of investments in all the ACP regions, with a clear focus on supporting private sector development (nearly 80% of the IF portfolio at the end of 2005). Both infrastructure, which is widely recognised as a prerequisite for economic development, and the financial sector, involving both enhancement and the funding of smaller projects, SMEs and micro-enterprises, now appear prominently in the portfolio. Cumulative approvals, signatures and disbursements under the IF are presented in the table below:

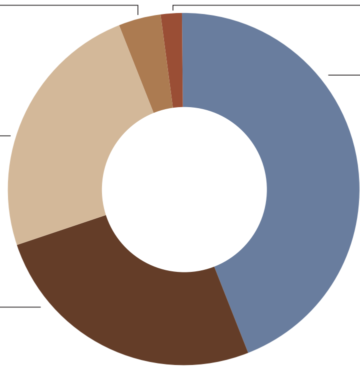
EUR m	2003	2004	2005	CUMULATIVE
Approvals	368.9	318.2	472.5	**1 159.6**
Signatures	140.2	337.2	351.2	**828.6**
Disbursements	4.1	93.2	113.8	**211.1**

The revision of the Cotonou Agreement in 2005 has introduced greater flexibility in the financing of infrastructure projects in HIPC or other ACP countries pursuing economic adjustment. This has directly translated into a significant increase in the relative share of infrastructure investments, which accounted for 26% of the portfolio at the end of 2005, compared to some 10% in 2004. IF financing of infrastructure projects has so far focused on energy projects – nine projects located in Burkina Faso, Ethiopia, Ghana, Grenada, Kenya, Mauritania, Mozambique and Zambia – and, to a limited extent, on transport (Liaison Maritime Dakar-Ziguinchor in Senegal).

Although its relative share in the IF portfolio decreased from close to 60% to just under 45% at the end of 2005, financial services continue to be a focus sector in line with the provisions of the Cotonou Agreement. The relative share of global loans decreased in the overall portfolio from 22% in 2004 to 19% at the end of 2005. This is consistent with the IF strategy of promoting new financial instruments to support the development of SMEs, such as guarantees or equity, which, with a total of 16 operations equivalent to nearly EUR 150m of commitments, accounted for 18% of the portfolio at the end of 2005.

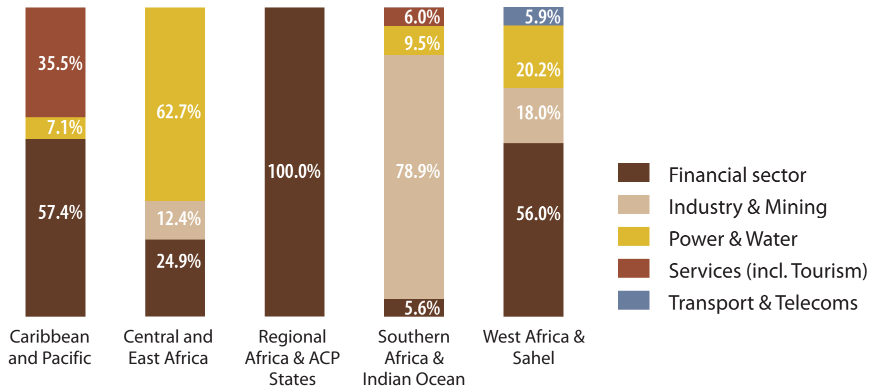
Regional cooperation and integration are high on the agenda for accomplishing some of the core Millennium Development Goals and the IF recognises the need to support regional projects, whilst acknowledging the difficulties involved in developing regional initiatives. Regional operations covering the whole of the ACPs accounted for 16% of the IF portfolio at the end of 2005, compared to 27% in 2004. These include the European Financing Partnership Agency Agreement signed in 2004, the implementation of which is progressing satisfactorily (see below). The portfolio also comprises a number of operations that target individual sub-regions, especially West Africa, where 23% of the sub-region's lending is made up of regional operations. The regional investment approach is also being actively pursued in the Caribbean and Pacific sub-regions in order to address the constraints faced by small economies and their physical remoteness. There,

Breakdown by sector (01/04/2003 - 31/12/2005)



emphasis is being placed upon making funds available as widely as possible through global loans – with individual global loans in countries that are large enough, but taking the traditional global loan structure one stage further for smaller countries through instruments such as the Pacific Islands Financing Facility, which encompasses global loans to a number of local development finance institutions under a single authorisation. In the Caribbean the approach is similar, with the IF supporting intermediaries in the commercial sector which themselves have a broad regional reach.

Breakdown by region and sector (01/04/2003 - 31/12/2005)

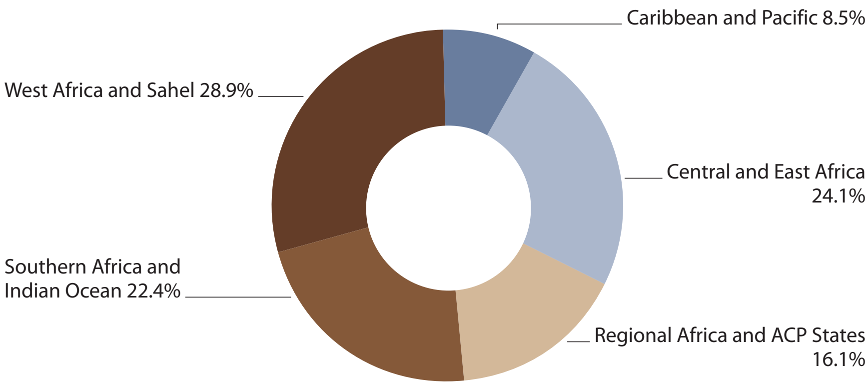


Interest rate subsidies

The EUR 187m provided for interest rate subsidies in the Cotonou Agreement is intended to increase the concessionality for both the Bank's own resources and IF loans under the specific conditions highlighted earlier in this report. By the end of 2005, a total amount of EUR 38m had been earmarked for six projects, five of which concerned infrastructure investments.

Contract name	Loan amount in EUR m	Estimated subsidy amount in EUR m	Sector
SONABEL III	15.25	2.16	Energy
Compagnie Sucrière du Tchad	11.80	1.80	Agro-industry
Liaison maritime Dakar-Ziguinchor	10.00	2.34	Transport
Gilgel Gibe II Hydropower Plant	50.00	18.40	Energy
VRA VII	10.50	2.58	Energy
KPLC Grid Development	43.00	10.29	Energy
TOTAL	**140.55**	**37.57**	

Breakdown by region (01/04/2003 - 31/12/2005)



If we focus on individual countries, IF financing has so far gone to 23 out of the 78 ACP countries and 20 OCT that are eligible, which can be considered satisfactory in view of the time in which the portfolio has been building up and of the fact that it is currently not possible, because of political instability or other reasons, to operate in a number of countries, notably Zimbabwe and Côte d'Ivoire, where the Bank was previously particularly active.

Partnership

The Bank is strongly committed to promoting a policy of partnership aimed at coordinating efforts and increasing cooperation, not only with all European development agencies, but also with other international financial institutions (IFIs). This policy is reflected in the regular consultation at both senior management and staff levels, project cofinancing and joint participation in working groups.

During the year, the Bank signed a Memorandum of Understanding (MoU) with the Commission and the African Development Bank, the intention being to provide a framework for future cooperation between the three institutions in identifying more joint financing opportunities, with particular focus on private sector and regional integration project initiatives, in line with the objectives of the Investment Facility. The MoU also addresses areas of cooperation in the field of development policy issues, not only in the ACPs but also in the Mediterranean region.

At policy level, the possible pooling of the Bank's and the Commission's expertise as well as the identification of financing opportunities where Commission grant resources could be used alongside IF funds or the Bank's own resources is a major area of concerted action. In this respect, a key feature of the year was the definition of a new "EU-Africa Partnership for Infrastructure", the establishment of which was initiated at the instigation of Commissioner Michel. A blend of Commission grants and EIB loans was identified as the most appropriate mechanism to increase EU financial assistance for African infrastructure projects. A Memorandum of Understanding between the Bank and the Commission was signed in early 2006, marking the official launch of this EU financing initiative for infrastructure in sub-Saharan Africa, in which other bilateral financial institutions will be able to participate at a later stage.

Institutional cooperation was also very active in other areas, including the sec-

February 2006: EIB President P. Maystadt and Commissioner L. Michel sign the EU Africa Partnership for Infrastructure Memorandum of Understanding

The EU Water Facility: improved access to water

toral participation of the Commission and the Bank in working groups on topics such as water and energy, guarantees and private sector enhancement. The first concrete results are already visible with the launching of the EU Water Facility, with which the Bank is closely associated. Following a first call for proposals launched in November 2004, five proposals involving the EIB were accepted, for a total grant contribution of nearly EUR 70m, representing about 30% of the funds available. These include four projects in Ethiopia, Madagascar, Mozambique and Tanzania (the last of these for the preparatory phase) as well as a EUR 3m project preparation facility. Synergies are also expected in the energy sector, once the EU Energy Facility is further developed.

With regard to other European development institutions and agencies, in December 2005 the Bank concluded an agreement with AFD and KfW with a view to strengthening cooperation in the ACPs and in the Mediterranean countries. The agreement builds on lengthy experience of working together and is based on shared objectives. It is open to all specialised European institutions wishing to participate in this effort to create greater synergies between official development assistance agencies.
Practical implementation of the Framework Agreement on Financial Cooperation between the Bank and the European Development Finance Institutions (EDFIs) through the European Financing Partners (EFPs), a Special Purpose Vehicle (SPV) set up in 2004 and jointly owned by the EDFIs and the EIB (on behalf of the IF) made significant progress during 2005. By the end of 2005, all of the EFPs' funding capacity – EUR 140m of which the IF is providing EUR 90m – had been allocated to some 12 projects, with three of them having obtained final approval and disbursements having been made in respect of two of them. An initial evaluation of the EFPs' activities and business took place in July 2005, concluding that the overall experience had been positive: additional funds are being mobilised as a result of the IF bearing part of the risk involved in financing the private sector in the ACPs, whilst the EFPs have improved the efficiency of project appraisal and management by pooling and optimising staff resources. This positive evaluation led to the decision to proceed with the replenishment of the EFPs and at the end of 2005 the Bank approved an additional EUR 100m to be made available from IF resources, in parallel with an additional EUR 50m from the EDFIs.

Another example of the Bank's efforts to boost cooperation with other donors was the two-day workshop on Development Impact Indicators for IFI Private Equity Funds, which the Bank hosted in early November 2005. This workshop was organised in the framework of an IFC initiative launched in 2001, with a twice-yearly series of meetings being held as a forum to discuss issues of common interest to various IFIs. The topic of this workshop reflected the Bank's willingness to contribute to the definition of common key or core indicators in order to achieve a minimum degree of harmonisation in the assessment of the development impact of private investment funds. This workshop, which was co-chaired with the Japanese Bank for International Cooperation and attended by a wide number of IFIs and EDFIs, achieved an initial breakthrough which will hopefully lead to the endorsement of the indicators by all participants at the next meeting to be held in Washington DC in the spring of 2006.

Organisation and staffing

The ACP-IF Department, which falls within the Directorate for Operations outside the European Union, is responsible for the management of all projects and other EIB activities in the ACP countries and the OCTs. To carry out this task, it draws on the services of the Bank's Projects, Legal, Risk Management and Finance Directorates for their input into the analysis and monitoring of operations. It also avails itself of the services of the Bank's non-operational support directorates (e.g. Human Resources, Information Technology, Financial Control).

The ACP-IF Department comprises four geographical divisions responsible for operations and two horizontal divisions for Resources and Business Development and for Portfolio Management and Policy.

- The Resources and Business Development Division supports the geographical divisions in introducing new instruments in finance/microfinance, corporate finance and project finance operations, including new operational policies and guidelines. It acts as a centre of expertise and repository of best practice.

- The Portfolio Management and Policy Division is responsible for monitoring and reporting on the IF's performance objectives and financial management, as well as for business planning and policy, and financial and non-financial relationships with other donors.

The opening of EIB/IF regional representation offices in Dakar, Nairobi and Tshwane (Pretoria) took place during 2005 and is expected to considerably strengthen the Bank's operations in those regions. Regional offices for the Caribbean and Pacific are due to be opened in the course of 2006.

After the restructuring and substantial recruitment of the previous years, 2005 saw a consolidation of the ACP-IF Department and other operational directorates. A number of new recruitments took place during the year both to reinforce the existing front office staff and to meet the Department's need to adequately monitor its portfolio of projects in the ACP States, including those under the previous Lomé conventions. Maintaining the quality of the portfolio through adequate and proactive monitoring is key to ensuring the IF's sustainability.

By the end of 2005, a total of 68 staff were directly assigned to operations in the ACP countries in the ACP-IF Department, of whom six were based in the regional offices. A substantial amount of additional staff resources is also made available by the Projects, Legal and Risk Management Directorates as well as by other non-operational directorates.

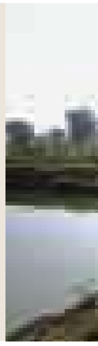
The ACP-IF team

Nairobi Office

Dakar Office

Tshwane (Pretoria) Office

Financial review



As stipulated by the Financial Regulation applicable to the 9th European Development Fund, the Bank keeps the accounts of the IF and prepares its financial statements, which are presented in Annex 4, in accordance with International Financial Reporting Standards (IFRS).

By the end of 2005, total assets had risen from EUR 170m to EUR 516m, partly reflecting the higher pace of disbursements recorded during the year. Outstanding loans and equity investments totalled EUR 228m, the balance being made up of cash and amounts called from the Member States but not yet received at year-end and required to meet future disbursements or contingent liabilities in the case of guarantee operations. Net operating income, i.e. interest, fee and commission income, was up from EUR 6.8m in 2004 to EUR 12m, the bulk of it being interest earned on outstanding loans. A number of IF investments are denominated in non-euro currencies, notably USD. The currency breakdown of the disbursed portfolio is shown in the notes to the attached financial statements. The IF minimises its currency risk exposure on USD lending by entering into currency swaps, the net result of which was a profit of EUR 2.7m in 2005.

One of the IF's private equity investment funds, African Banks Holding, which was established in September 2003 with the objective of buying African retail banks out of privatisation and restructuring them, will be terminated in early 2006 as no investments have been made so far and there are no reasonable prospects of making any in the foreseeable future, reflecting the lack of privatisation opportunities. Aggregate capital contributions from the fund's shareholders (First Rand Merchant Bank of South Africa, FMO, IFC, KfW and EIB) amounted to USD 9.8m, of which USD 2.7m (EUR 1.9m) was disbursed under the Investment Facility, mainly to cover management fees and acquisition budgets for due diligence on investments that have not materialised. This amount has been recorded as a loss in the 2005 accounts of the Investment Facility.

The net profit for the year does not take into account the costs incurred by the Bank for managing the IF, which are fully covered both by the Member States' remuneration and by appraisal fees charged by the Facility for specific projects. These costs include the direct costs incurred by the respective operational directorates and, on a pro rata basis, the costs of non-operational directorates and other overheads.

Investment Facility – Costs and Revenue (in EUR '000)	**Year: 2005**
Total expenses	**33 364**
of which: operational directorates	22 098
non-operational directorates and overheads	11 266
Revenue	**33 364**
of which: fees charged to the Member States	32 455
project appraisal fees	909

Annexes

Annexes

Annex 1 – IF Portfolio of signed operations 2003-2005

Name	Region / Country	Sector	Nature of operation	Public or Private	Amount (in EUR m)
2003					
African Banks Holdings, LLC	Regional – ACP	Financial sector	□	Private	30.0
Aureos East Africa Fund	Regional – East & Central	Financial sector	□	Private	6.8
Aureos Southern Africa Venture Capital	Regional – East & Central	Financial sector	□	Private	10.5
Aureos West Africa Fund	Regional – West Africa	Financial sector	□	Private	8.75
Bel Ombre Hotel	Mauritius	Services,Tourism	○□	Private	6.1
Développement du Secteur Privé PG II	Cameroon	Financial sector	◊	Private	28.0
EBTR Mauritanie	Mauritania	Infrastructure	☆	Private	4.0
Kansanshi Copper Mine	Zambia	Industry, Mining	◊	Private	34.0
PG Burkina Faso	Burkina Faso	Financial sector	◊	Private	12.0
			Sub-Total for 2003		***140.15***

Name	Region / Country	Sector	Nature of operation	Public or Private	Amount (in EUR m)
2004					
African Lion Mining Fund II	ACP States	Industry, Mining	□	Private	7.0
BOAD IV B Facilité de garantie	Regional – West Africa	Financial sector	✧	Private	25.0
BOAD IV C Prise de participation	Regional – West Africa	Financial sector	□	Private	4.6
DFCU Leasing Global Loan	Uganda	Financial sector	◗	Private	5.0
EDFI European Financing Partners (EFP)	ACP States	Financial sector	◇	Private	90.0
European Financing Partners (EFP)	ACP States	Financial sector	□	Private	0.01
Fabulous Flowers	Botswana	Industry, Floriculture	○	Private	2.0
Magadi Soda Pure Ash Project	Kenya	Industry, Mining	☆○	Private	12.99
Moma Titanium Minerals	Mozambique	Industry, Mining	☆○	Private	55.0
MOZ/RSA Natural Gas-Upstream Component	Mozambique	Energy	◊	Public	10.0
Nigeria Global Loan	Nigeria	Financial sector	◊	Private	50.0
Novotel Denarau Project (IF)	Fiji	Services,Tourism	□	Private	5.0
Prêt global II (GABON)	Gabon	Financial sector	◗	Private	10.0
Samoa Venture Capital Fund	Samoa	Financial sector	□	Private	0.35
Shorecap International LTD (SCI)	ACP States	Financial sector	□	Private	2.5
SNIM VII	Mauritania	Energy	☆	Public	22.5
SONABEL III	Burkina Faso	Energy	○	Public	15.25
Westin Macao Resort	Dominican Republic	Services,Tourism	○	Private	20.0
			Sub-Total for 2004		***337.2***

Name	Region / Country	Sector	Nature of operation	Public or Private	Amount (in EUR m)
2005					
Albion Resort Mauritius B	Mauritius	Services	□	Private	5.0
Aqualma III	Madagascar	Industry & Mining	🌢	Private	5.0
Banque régionale des marchés B	Regional – West Africa	Financial sector	🌢	Private	0.61
BIMAO	Regional – West Africa	Financial sector	✧	Private	5.0
CAPE II	Regional – West Africa	Financial sector	□	Private	11.90
Cap Vert - Secteur financier PG II	Cape Verde	Financial sector	🌢	Private	8.0
Clico Global Loan	Trinidad and Tobago	Financial sector	🌢	Private	20.0
Compagnie Sucrière du Tchad	Chad	Industry & Mining	✧	Private	11.8
Dangote Cemente	Nigeria	Industry & Mining	🌢	Private	33.06
Development Finance Limited IX	Trinidad and Tobago	Financial sector	🌢	Private	7.0
Étude El Aouj	Mauritania	Industry & Mining	□	Private	5.0
Gilgel Gibe II Hydropower Plant	Ethiopia	Energy	🌢	Public	50.0
Grenlec III Project	Grenada	Energy	🌢	Private	5.0
KPLC Grid Development	Kenya	Energy	🌢	Public	43.0
La Fayette Investissements (LFI)	Regional – ACP	Financial sector	□	Private	3.5
Liaison maritime Dakar-Ziguinchor	Senegal	Transport	🌢	Public	10.0
Moma Titanium C	Mozambique	Industry & Mining	○	Private	2.75
Mopani Copper Project	Zambia	Industry & Mining	🌢	Private	48.0
NIGER - PG Secteur financier II	Niger	Financial sector	🌢	Private	8.0
Olkaria II Extension	Kenya	Energy	🌢	Public	32.5
Pacific Islands Financing Facility (A&B)	Regional – Pacific	Financial sector	🌢	Private	13.0
Seph-Nouadhibou	Mauritania	Industry	🌢	Private	5.0
VRA VII	Ghana	Energy	🌢	Public	10.5
Zesco Kariba North II	Zambia	Energy	🌢	Public	7.6
			Sub-Total for 2005		***351.22***
			TOTAL		**828.57**

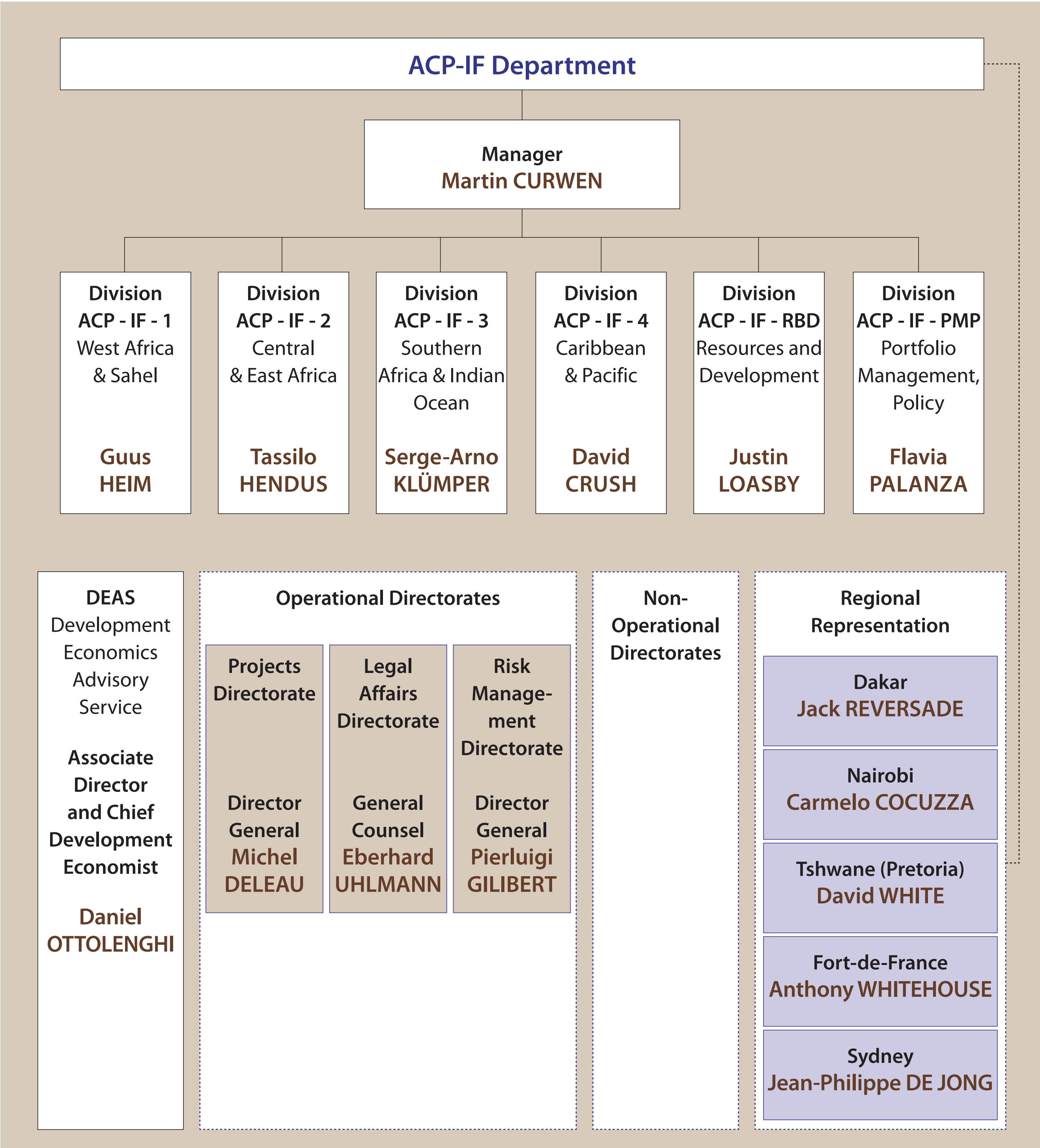
Nature of operation:

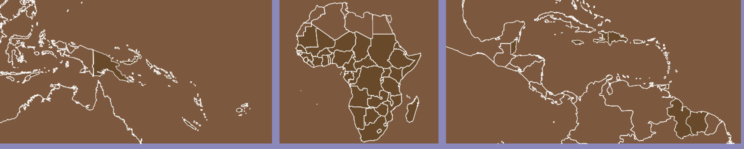
Agency Agreement	◇
Local currency loan	◗
Guarantee	✧
Senior Loan	☆
Equity	□
Ordinary Loan	🌢
Subordinated loan	○

Annex 2 – Portfolio of signed own resources operations 2003-2005

Name	Region / Country	Sector	Nature of operation	Public or Private	Amount (in EUR m)
2003					
Bel Ombre Hotel A	Mauritius	Services	Senior Loan	Private	6.10
			Sub-Total for 2003		***6.10***
2004					
BOAD PG IV A	Regional – West Africa	Financial Sector	Senior Loan	Private	25.00
Magadi Soda Pure Ash Project A	Kenya	Industry	Senior Loan	Private	8.93
Mauritius Container Terminal II	Mauritius	Transport	Senior Loan	Public	14.00
Novotel Denarau Project	Fiji	Services	Senior Loan	Private	6.00
Vinlec IV	St Vincent & Grenadines	Energy	Senior Loan	Public	8.30
			Sub-Total for 2004		***62.23***
2005					
Caribbean Dev Bank III Facility	Regional – Caribbean	Financial Sector	Senior Loan	Public	40.00
Dangote Cement	Nigeria	Industry	Senior Loan	Private	90.91
SBM Global Loan	Mauritius	Financial Sector	Senior Loan	Private	20.00
			Sub-Total for 2005		***150.91***
			TOTAL		**219.24**

Annex 3 – Organisation Chart





Annex 4 – Financial Statements as at 31 December 2005

INCOME STATEMENT

(in EUR'000)

	Notes	***Year to 31.12.2005***	*Year to 31.12.2004*
Interest and similar income		12 376	1 780
From loans		*12 117*	*1 774*
From treasury		*259*	*6*
Interest expenses and similar charges		(1 103)	-
Net interest income		11 273	1 780
Net fee and commission income	5	708	5 048
Financial operations			
Net result on financial operations	6	2 777	(980)
Net result from investment securities	9	(1 918)	-
Member States special contribution to general administrative expenses	7	32 455	20 172
General administrative expenses	7	(32 455)	(20 172)
Net profit for the year		**12 840**	**5 848**

The notes refer to the Notes to the Financial Statements.

BALANCE SHEET

(in EUR'000)

ASSETS	*Notes*	***31.12.2005***	***31.12.2004***
Cash and cash equivalents	8	194 916	11 790
Derivative financial instruments	12	-	139
Loans and equity investments	9		
Loans		196 731	78 963
of which accrued interest		*2 722*	*318*
Equity investments		30 886	19 609
Amounts receivable from contributors	10	92 455	60 000
Other assets	11	351	-
Total assets		**515 339**	**170 501**
LIABILITIES			
Derivative financial instruments	12	5 584	-
Amounts owed to third parties	13	115 655	5 000
Deferred income		186	-
Total liabilities		**121 425**	**5 000**
EQUITY ATTRIBUTABLE TO MEMBER STATES			
Facility Member States Contribution called	14	370 000	160 000
Retained earnings		18 341	5 501
Fair value reserve	9	5 573	-
Total equity		**393 914**	**165 501**
Total liabilities and Member States' resources		**515 339**	**170 501**

The notes refer to the Notes to the Financial Statements.

CASH FLOW STATEMENT

(in EUR '000)

	Year to 31.12.2005	Year to 31.12.2004
Cash flows from operating activities		
Profit for the financial year	12 840	5 848
Adjustments		
Impairment on equity participation	1 918	-
Interest capitalised	(1 978)	-
Increase in accruals and deferred income	468	-
Profit on operating activities	**13 248**	**5 848**
Net loan disbursements	(107 817)	(79 323)
Repayments	863	113
Fair value movement on derivatives	5 441	(139)
Increase in prepayments and accrued income on loans	(2 404)	(318)
Effects of exchange rate changes on loans, equity and swaps	(8 200)	1 117
Increase in equity investments	(5 854)	(17 988)
Proceeds from equity investments	-	1 520
Increase in other assets	(351)	-
Net cash from operating activities	**(105 074)**	**(89 170)**
Cash flows from financing activities		
Paid in by Facility Member States	210 000	(40 000)
(Increase) / decrease in amount receivable from contributors	(32 455)	73 487
Net increase in amount payable from interest subsidies	78 200	-
Increase in amount payable to European Investment Bank	32 455	-
Net cash from financing activities	**288 200**	**33 487**
Summary statement of cash flows		
Cash and cash equivalents at beginning of financial year	**11 790**	**67 473**
Net cash from operating activities	(105 074)	(89 170)
Net cash from financing activities	288 200	33 487
Cash and cash equivalents at end of financial year	**194 916**	**11 790**

STATEMENT OF CHANGES IN EQUITY

(in EUR '000)

	31.12.2005	31.12.2004
Facility Member States contribution		
Balance at the beginning of the year	160 000	200 000
Facility Member States contribution called during the year	230 000	60 000
Facility Member States contribution cancelled during the year	(20 000)	(100 000)
Balance at the end of the year	**370 000**	**160 000**
Retained earnings		
Balance at the beginning of the year	5 501	(347)
Net profit for the year	12 840	5 848
Balance at the end of the year	**18 341**	**5 501**
Net fair value movement on available for sale investment	**5 573**	**-**
Total equity	**393 914**	**165 501**

Notes to the Financial Statements

1. General information

The Investment Facility (the "Facility") has been established within the framework of the Cotonou Agreement (the "Agreement") on co-operation and development assistance negotiated between the African, Caribbean and Pacific Group of States ("the ACP States") and the European Union and its Member States on 23 June 2000 and revised on 25 June 2005.

The Facility is managed by the European Investment Bank (the "EIB" or the "Bank"). Under the terms of the Agreement up to EUR 2,200 million for ACP and EUR 20 million for OCT (as agreed by the Council Decision of 27 November 2001 on the association of the Overseas Countries and Territories with the European Community) may be allocated to finance the Facility. Within the framework of the Agreement, the EIB also manages loans granted from its own resources. All other financial resources and instruments under the Agreement are administered by the European Commission.

2. Significant accounting policies

In 2005, the Facility adopted the International Financial Reporting Standards for the preparation of its financial statements and this adoption was done according to IFRS 1 – First Time Adoption of IFRS – using January 1, 2004 as the transition date.

The accounting policies applied are in conformity with the IFRS and with the overall principles of the Directives 86/635/EEC of the Council of the European Communities of 8 December 1986 on the annual accounts and consolidated accounts of banks and other financial institutions, as amended by Directive 2001/65/EC of 27 September 2001 and by Directive 2003/51/EC of 18 June 2003 on the annual and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings (the "Directives").

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Facility's accounting policies. The area involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed.

The Balance Sheet represents assets and liabilities in decreasing order of liquidity and does not distinguish between current and non-current items.

2.1 Foreign currency translation

The Facility uses the Euro (EUR) for presenting its financial statements, which is also the functional currency.

For the presentation of the financial statements, assets and liabilities denominated in currencies other than the Euro are translated into Euro at the spot rates of exchange prevailing on the balance sheet date.

The profit and loss accounts are translated monthly into Euro based on the exchange rates prevailing at the end of each month.

Exchange differences arising on translation are recorded as a currency gain or loss in the income statement.

2.2 Cash and cash equivalents

The Facility defines cash equivalents as current accounts or short-term deposits with original maturities of three months or less.

2.3 Financial assets other than derivatives

Financial assets are accounted for using the settlement date basis.

- Loans

  Loans originated by the Facility are recorded at cost (net disbursed amounts), which is the fair value of the cash given to originate the loan, including any transaction costs, and are subsequently measured at amortised cost, using the effective yield method, less any provision for impairment or uncollectability.

- Equity investments

  This consists of the Facility direct or indirect equity investments. Such assets are carried at fair value and classified as available for sale.

a. Venture capital funds

The fair value of each venture capital fund will be based on the Net Asset Value (NAV), reported by the fund, if calculated based on international valuation standard recognized to be compliant with IFRS. The Facility may however decide to adjust the NAV reported by the fund if there are issues that may affect the valuation.

If no internationally recognized fair valuation standard is applied, the valuation will be conducted on the basis of the underlying portfolio.

b. Direct equity investments

The fair value of the investment will be based on the latest set of financial statements available, re-using, if applicable, the same model as the one used at the acquisition of the participation.

For non quoted investments, the fair value is determined by applying recognized valuation techniques. Unrealised gains or losses are reported in equity until such investment is sold, collected or disposed of, or until such investment is determined to be impaired. At this time the cumulative profit or loss previously recognised in reserves is included in the income statement. These investments are accounted for at cost when the fair value cannot be reliably measured.

- Guarantees

  Guarantees issued by the Facility are categorized as financial guarantees and are recorded off-balance sheet, with the exception of related premiums, unless a provision is needed to cover probable losses, determined in accordance with IAS 37.

2.4 Impairment of financial assets

Impairments are made for loans outstanding at the end of the financial year, when presenting objective evidence of risks of non recovery of all or part of their amounts according to the original contractual terms or the equivalent value. Specific provisions for impairment are then recognized in the income statement. Impairment is then defined as the difference between the carrying value of the loans and the net present value of expected future cash flows, determined using the instrument's original effective interest rate where applicable. On the basis that the Bank conducts credit risk assessment on a loan by loan basis, there is no need for collective impairment provision.

The Facility determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below cost. This determination of whether a decline is significant or prolonged is based on a judgmental appreciation. If a specific provision for impairment is made for an equity investment, any change in fair value that had previously been recognized in reserves is taken to the income statement.

The European Investment Bank's Risk Management reviews financial assets for impairment at least once a year. Resulting adjustments include the unwinding of the discount in the income statement over the life of the asset, and any adjustments required in respect of a reassessment of the initial impairment.

2.5 Derivative financial instruments

In the normal course of its activity, the Facility may enter into swap contracts with a view to hedge specific lending operations, denominated in actively traded currencies other than the Euro, in order to offset any gain or loss caused by foreign exchange rate fluctuations.

However, the Facility has not entered into any hedge accounting transactions under IFRS rules as at December 31, 2005 and 2004. Therefore, all derivatives are measured at fair value through the income statement. Fair values are derived primarily from discounted cash-flow models, option-pricing models and from third party quotes. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

2.6 Contributions

Contributions from Member States are recognized as receivable in the balance sheet on the date of the Council Decision fixing the financial contribution to be paid by the Member States to the Facility.

2.7 Interest subsidies

As part of its activity, the Facility manages interest subsidies on behalf of the Member States.

The part of the Member States contributions allocated to the payment of interest subsidies is not accounted for in the Facility's equity but is classified as an amount owed to third parties.

2.8 Interest income on treasury

Under the terms of the Facility and according to the Financial Regulation applicable to the 9th European Development Fund, the funds received by the EIB on behalf of the Facility are recorded in an account in the Commission's name. Interest on these deposits, placed by the Facility with the EIB, is not accounted for by the Facility as it is payable directly to the European Commission.

Reflows, being repayment of principal, interest or commissions stemming from financial operations, and interest calculated on these reflows are accounted for within the Facility.

2.9 Interest, fees, commissions and dividends

Interest is recorded on an accruals basis using the effective yield method.

Fees received in respect of services provided over a period of time are recognized as income as the services are provided. Commitment fees are deferred and recognized in income using the effective interest method over the period from disbursement to repayment of the related loan.

Dividends relating to equity investments are recognised when received.

2.10 Taxation

The Protocol on the Privileges and Immunities of the European Union, appended to the Treaty of 29 October 2004 establishing a Constitution for Europe, stipulates that the assets, revenues and other property of the Institutions of the Union are exempt from all direct taxes.

2.11 Effect of changes in accounting policies

Previous financial statements were produced in accordance with the general principles of the Directive 86/635/EEC of the Council of the European Communities of 8 December 1986 (as amended by Directive 2001/65/EC of 27 September 2001) on the annual accounts and consolidated accounts of banks and other financial institutions (the "Directive").

Where necessary, certain prior-year figures have been reclassified to conform with changes to the current year's presentation for comparative purposes. The transition to IFRS has not affected the net income and equity for the year 2004.

3. Risk Management

3.1 Credit risk

This section presents financial information about the investments made by the Facility.

As at December 31, 2005, the Facility's only exposures were with private borrowers. The table hereafter analyses the Facility exposure disbursed by type of investment instrument used.

Exposure disbursed (in EUR'000)	**2005**	**2004**
Senior Loans (exposure disbursed)	111 671	11 755
of which Global Loans	*50 314*	*7 804*
Subordinated Loans and Quasi Equity	82 617	66 890
Equity	30 886	19 609
Total	**225 174**	**98 254**

The table below analyses the Facility exposure disbursed by sector.

Exposure disbursed (in EUR'000)	**2005**	**2004**
Infrastructure	3 683	3 400
Industry	140 597	68 308
Services	11 548	11 122
Agriculture	6 500	-
Services (financ. act.)	40 248	13 493
Global loans	22 598	1 931
Total	**225 174**	**98 254**

3.2 Interest rate risk

The table below summarizes the Facility's exposure to interest rate risk through its investments.

Exposure disbursed (in EUR'000)	**2005**	**2004**
Fixed rate interest	92 150	35 473
Floating rate interest	102 138	43 172
Non-interest bearing investments	30 886	19 609
Total	**225 174**	**98 254**

3.3 Liquidity risk

The table below sets out the Facility's assets and liabilities by relevant maturity groupings based on the remaining period to the contractual maturity date.

Liquidity risk (in EUR'000)	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
ASSETS					
Cash and cash equivalents	194 916	-	-	-	194 916
Loans and equity investments					
Loans	2 722	-	3 326	190 683	196 731
Equity investments	-	-	-	30 886	30 886
Amounts receivable from contributors	92 455	-	-	-	92 455
Other assets	351	-	-	-	351
Total assets	**290 444**	**-**	**3 326**	**221 569**	**515 339**
LIABILITIES					
Derivative financial instruments	(282)	-	(1 134)	(4 168)	(5 584)
Amounts owed to Member States	(115 655)	-	-	-	(115 655)
Deferred income	(186)	-	-	-	(186)
Total liabilities	**(116 123)**	**-**	**(1 134)**	**(4 168)**	**(121 425)**
Net liquidity position at 31 December 2005	**174 321**	**-**	**2 192**	**217 401**	**393 914**
Net liquidity position at 31 December 2004	72 107	-	139	98 255	170 501

3.4 Foreign exchange risk

The table below analyses the Facility assets and liabilities by relevant currency groupings.

Foreign exchange risk (in EUR'000)	EUR	USD	ACP/OCT Currencies	Total
ASSETS				
Cash and cash equivalents	194 655	261	-	194 916
Loans and equity investments				
Loans	94 723	88 159	13 849	196 731
Equity investments	13 409	11 877	5 600	30 886
Amounts receivable from contributors	92 455	-	-	92 455
Other assets	57	70	224	351
Total assets	**395 299**	**100 367**	**19 673**	**515 339**
LIABILITIES				
Derivative financial instruments	(5 584)	-	-	(5 584)
Amounts owed to third parties	(115 655)	-	-	(115 655)
Deferred income	(186)	-	-	(186)
Total liabilities	**(121 425)**	**-**	**-**	**(121 425)**
Currency position at 31 December 2005	**273 874**	**100 367**	**19 673**	**393 914**
Currency position at 31 December 2004	145 796	14 166	10 539	170 501
COMMITMENTS				
Undisbursed loans and equity investments	435 745	134 679	458	570 882
Guarantees drawn	-	-	5 347	5 347
Guarantees undrawn	36 453	-	-	36 453
	472 198	**134 679**	**5 805**	**612 682**

In accordance with the Cotonou Agreement, the Facility may enter in financial operations in currencies other than Euro and bear the foreign exchange risk. However, when an adequate swap market exists, the Facility may enter into a swap agreement to cover itself against any foreign exchange fluctuation.

4. Segment information

In accordance with IAS 14, the primary segment of the Facility is business operation and the secondary segment is geographical.

The activity of the Facility comprises primary Banking and Treasury operations.

Banking operations represent investments in projects, which are made with the purpose of supporting investments of private and commercially run public sector entities. The main investment products are loans, equity investments and guarantees.

Treasury activities include investing surplus liquidity and managing the Facility foreign exchange risk.

The Facility's activities are divided into five regions for internal management purposes.

Primary reporting format – business segment (in EUR'000):

At 31 December 2005	**Treasury**	**Banking**	**Total**
Revenues from segments	3 036	12 825	15 861
Expenses and charges from segments	(1 103)	(1 918)	(3 021)
Profit for the year			**12 840**
Segment assets	194 916	227 968	422 884
Unallocated assets			92 455
Total assets			**515 339**
Segment liabilities	5 584	186	5 770
Unallocated liabilities			115 655
Total liabilities			**121 425**
Commitments	**-**	**612 682**	**612 682**

Secondary reporting format – geographical segment (in EUR'000):

At 31 December 2005	**Revenues (*)**	**Total assets**	**Total liabilities**	**Commitments**
Caribbean and Pacific	824	5 448	-	65 694
Central and East Africa	24	17 607	-	185 666
Regional Africa and ACP states	(945)	32 844	-	100 437
Southern Africa and Indian ocean	10 023	148 778	-	44 021
West Africa and Sahel	981	23 291	186	216 864
Others (**)	-	287 371	121 239	-
Total	**10 907**	**515 339**	**121 425**	**612 682**

(*) Revenues represent the net profit on the Facility's operational activity (i.e. interest and commission income, less impairment, plus or minus the realised gain or loss on equity investments respectively).

(**) Under geographical segment "Other" are considered the amount payable to or receivable from the Member States or the European Investment Bank and the Facility cash and cash equivalent.

5. Net fee and commission income (in EUR'000)

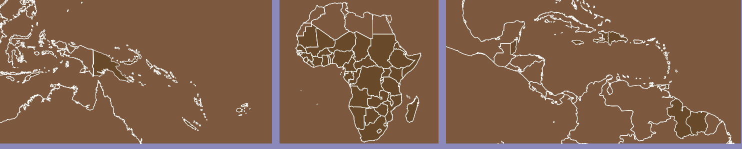
The main components of net fee and commission income are as follows:

	2005	**2004**
Operational fee	684	5 048
Guarantee fee	24	-
	708	**5 048**

6. Net result on financial operations (in EUR'000)

The main components of net fee profit on dealing activities and foreign exchange are as follows:

	2005	**2004**
Net result arising from foreign exchange variations	8 218	(1 119)
Fair value movement on derivatives	(5 441)	139
	2 777	**(980)**



7. General administrative expenses (in EUR'000)

General administrative expenses represent the actual costs incurred by the European Investment Bank (the "Bank") for managing the Facility less income generated from standard appraisal fees directly charged by the Bank to clients of the Facility.

	2005	2004
Actual cost incurred by the European Investment Bank	33 364	20 172
Income from appraisal fees charged to clients of the Facility	(909)	-
Net general administrative expenses	**32 455**	**20 172**

Under Council Decision of 8 April 2003, the Member States agreed to cover in full the expenses incurred by the Bank for the management of the Facility for the first 5 years of the 9th European Development Fund.

Net general administrative expenses provisioned as at 31 December 2004 in the Bank financial statements amounted to EUR 18 million. Based on the actual costs incurred by the European Investment Bank, this amount was subsequently adjusted by EUR 2.17 million in 2005. The 2004 income statement of the Facility has been restated to take into account this adjustment.

8. Cash and cash equivalents (in EUR'000)

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition. At 31 December 2005 and 2004, the Facility has only current accounts with the European Investment Bank.

The cash and cash equivalents can be broken down between the funds received from the Member States and not yet disbursed and the funds from the Facility's operational and financial activities.

	2005	2004
Member states contributions received and not yet disbursed	155 523	9 336
Funds from the Facility's financial and operational activities	39 393	2 454
	194 916	**11 790**

9. Loans and equity investments (in EUR'000)

	Loans	Equity investments
At 1st January 2005	78 645	19 609
Movement in fair value revaluation	-	5 573
Impairment	-	(1 918)
Change in amortised cost	(279)	-
Disbursements	108 096	5 854
Interest capitalised	1 978	-
Repayments	(863)	-
Foreign exchange movement	6 432	1 768
	194 009	**30 886**

At 31 December 2005, no loan was considered as impaired.

One equity investment has been completely impaired during the year, for an amount of EUR 1.9 million.

Investments in quoted companies represent EUR 10.1 million of the total equity investments.

At 31 December 2004, loans and advances to credit institutions for an amount of EUR 7.8 million have been reclassified in equity investments due to their nature in order to comply with IFRS rules.

10. Amounts receivable from contributors (in EUR'000)

The main components of amounts receivable from contributors are as follows:

	2005	2004
Contribution called but not paid	60 000	60 000
Special contribution to general administrative expenses	32 455	-
	92 455	**60 000**

11. Other assets

Other assets are made up of interest receivable on loans.

12. Derivative financial instruments (in EUR'000)

At December 31, 2005	Contract Notional Amount	Negative Fair Value
Cross currency swaps	59 176	3 979
Cross currency interest rate swaps	21 089	1 605
		5 584

At December 31, 2004	Contract Notional Amount	Positive Fair Value
Cross currency swaps	6 012	139
		139

13. Amounts owed to third parties (in EUR'000)

The main components of amounts owed to third parties are as follows:

	2005	2004
Net general administrative expenses payable to EIB	32 455	-
Interest subsidies not yet disbursed	83 200	5 000
	115 655	**5 000**

14. Facility Member States Contribution (in EUR'000)

With regard to the Member States Contribution to the Facility, an amount of EUR 455 million has been called, of which EUR 395 million has been paid-in. Of this contribution, an amount of EUR 370 million is allocated to the funding of the Facility as such, whereas EUR 85 million are earmarked to finance interest subsidies.

In 2005, a prior contribution amounting to EUR 20 million was cancelled retroactively at the request of the Member States participating in the 9th European Development Fund.

The statement of Facility Member States Contribution as at 31 December 2005 is as follows:

Member States	**Contribution to the Facility**	**Contribution to interest subsidies**	**Total contributed**	**Called and not paid (*)**
Austria	9 805	2 252	12 057	1 590
Belgium	14 504	3 332	17 836	2 352
Denmark	7 918	1 819	9 737	1 284
Finland	5 476	1 258	6 734	888
France	89 910	20 655	110 565	14 580
Germany	86 432	19 856	106 288	14 016
Greece	4 625	1 063	5 688	750
Ireland	2 294	527	2 821	372
Italy	46 398	10 659	57 057	7 524
Luxembourg	1 073	247	1 320	174
Netherlands	19 314	4 437	23 751	3 132
Portugal	3 589	825	4 414	582
Spain	21 608	4 964	26 572	3 504
Sweden	10 101	2 320	12 421	1 638
United Kingdom	46 953	10 786	57 739	7 614
TOTAL	**370 000**	**85 000**	**455 000**	**60 000**

(*) On the 22 December 2005, the Council fixed the amount of the financial contributions to be paid by each Member State by 20 January 2006.

15. Commitments (in EUR'000)

The Facility's commitments are as follows:

	2005	**2004**
Undisbursed loans	489 310	289 696
Undisbursed commitment in respect of equity investments	81 572	56 885
Guarantee drawn	5 347	-
Guarantee undrawn	36 453	25 000
	612 682	**371 581**

16. Subsequent events

There has been no material post balance sheet events which would require disclosure or adjustment to the 31 December 2005 financial statements.

On a proposal from the Management Committee, the Board of Directors reviewed these financial statements on 7 March 2006 and decided to submit them to the Board of Governors for approval at their meeting to be held on 7 June 2006.

Report of the Independent Auditor

The Chairman of the Audit Committee
EUROPEAN INVESTMENT BANK
Luxembourg

We have audited the financial statements, as identified below, of the Investment Facility for the year ended December 31, 2005. These financial statements are the responsibility of the Management Committee of the European Investment Bank. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Management Committee, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements identified below give, in accordance with International Financial Reporting Standards and with the general principles of the Directives of the European Union on the annual accounts and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings, a true and fair view of the financial position of the Investment Facility as of December 31, 2005 and of the results of its operations and its cash flows for the year then ended.

The financial statements on which our opinion is expressed comprise:

- Income Statement
- Balance sheet
- Cash flow statement
- Statement of changes in equity
- Notes to the financial statements.

ERNST & YOUNG
Société Anonyme
Réviseur d'Entreprises

Luxembourg, March 7, 2006

Bernard LHOEST

Alain KINSCH

The Audit Committee

The Audit Committee reports to the Board of Governors, the following statement being communicated to the Governors prior to their approval of the Annual Report and the financial statements for the past financial year.

Statement by the Audit Committee*

The Committee, instituted in pursuance of Article 14 of the Statute and Article 25 of the Rules of Procedure of the European Investment Bank for the purpose of verifying that the operations of the Bank are conducted and its books kept in a proper manner, having

- designated Ernst & Young as external auditors, reviewed their audit planning process, examined and discussed their reports,
- noted that the opinion of Ernst & Young on the financial statements of the Investment Facility for the financial period ending on 31 December 2005 is unqualified,
- convened on a regular basis with the Heads of Directorates and relevant services, and studied the documents which it deemed necessary to examine in the discharge of its duties,
- received assurance from the Management Committee concerning the effectiveness of the internal control structure and internal administration,

and considering

- the financial statements for the financial period ending on 31 December 2005 as drawn up by the Board of Directors at its meeting on 7 March 2006,
- that the foregoing provides a reasonable basis for its statement and,
- Articles 22, 23 and 24 of the Rules of Procedure,

to the best of its knowledge and judgement:

confirms that the activities of the Investment Facility are conducted in a proper manner, in particular with regard to risk management and monitoring;

has verified that the operations of the Investment Facility have been conducted and its books kept in a proper manner and that to this end, it has verified that the Investment Facility's operations have been carried out in compliance with the formalities and procedures laid down by the Statute and Rules of Procedure;

confirms that the financial statements, comprising the balance sheet, the income statement, the statement of changes in equity, the cash flow statement and the notes to the financial statements give a true and fair view of the financial position of the Investment Facility as at 31 December 2005 in respect of its assets and liabilities, and of the results of its operations for the year then ended.

Luxembourg, 7 March 2006

THE AUDIT COMMITTEE

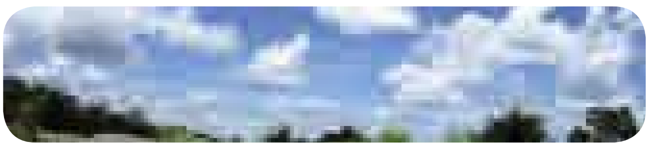
M. COLAS — R. POVEDA ANADÓN — M. DALLOCCHIO

* The Financial Regulation applicable to the 9th European Development Fund in Article 112 with regard to the operations managed by the European Investment Bank states that these operations shall be subject to the audit and discharge procedures laid down in the Statute of the Bank for all of its operations. On this basis, the Audit Committee issues the above statement.

Annex 5 – ACP Countries and OCTs

Africa

- Angola
- Benin
- Botswana
- Burkina Faso
- Burundi
- Cameroon
- Cape Verde
- Central African Republic
- Chad
- Comoros
- Congo
- Democratic Republic of Congo
- Côte d'Ivoire
- Djibouti
- Equatorial Guinea
- Eritrea
- Ethiopia
- Gabon
- Gambia
- Ghana
- Guinea
- Guinea-Bissau
- Kenya
- Lesotho
- Liberia
- Madagascar
- Malawi
- Mali
- Mauritania
- Mauritius
- Mozambique
- Namibia
- Niger
- Nigeria
- Rwanda
- São Tomé and Principe
- Senegal
- Seychelles
- Sierra Leone
- Somalia
- South Africa
- Sudan
- Swaziland
- Tanzania
- Togo
- Uganda
- Zambia
- Zimbabwe



Pacific

- Cook Islands
- East Timor
- Fiji
- Kiribati
- Marshall Islands
- Micronesia
- Nauru
- Niue
- Palau
- Papua New Guinea
- Samoa
- Solomon Islands
- Tonga
- Tuvalu
- Vanuatu

Caribbean

- Antigua and Barbuda
- Bahamas
- Barbados
- Belize
- Cuba
- Dominica
- Dominican Republic
- Grenada
- Guyana
- Haiti
- Jamaica
- Saint Kitts and Nevis
- Saint Lucia
- Saint Vincent and the Grenadines
- Suriname
- Trinidad and Tobago

OCTs

- Anguilla
- Aruba
- British Antarctic Territory
- British Indian Ocean Territory
- British Virgin Islands
- Cayman Islands
- Falkland Islands
- French Polynesia
- French Southern and Antarctic Lands
- Greenland
- Mayotte
- Montserrat
- Netherlands Antilles
- New Caledonia
- Pitcairn Islands
- Saint Helena
- Saint Pierre and Miquelon
- South Georgia and the South Sandwich Islands
- Turks and Caicos Islands
- Wallis and Futuna

Annex 6 – Glossary of abbreviations

Glossary of abbreviations

A

ACP: Africa, Caribbean and Pacific
AFD: Agence française de Développement

B

BIMAO: Banque des Institutions Mutualistes d'Afrique de l'Ouest
BOAD: West African Development Bank
BRM: Banque Régionale des Marchés

C

CAPE : Capital Alliance Private Equity Fund
CDB: Caribbean Development Bank
CDE: Centre for the Development of Enterprise
CEMAC: Central African Economic and Monetary Community
CST: Compagnie Sucrière du Tchad
CRPGs: Credit Risk Policy Guidelines

D

DFL: Development Finance Limited

E

ECOWAS: Economic Community Of West African States
EDF: European Development Fund
EDFIs: European Development Finance Institutions
EEPCO: Ethiopian Electric Power Corporation
EFP: European Financing Partner
EIB: European Investment Bank
EU: European Union

F

FMO: Netherlands Development Finance Company

G

GDP: Gross Domestic Product

H

HIPC: Heavily Indebted Poor Countries

I

IF: Investment Facility
IFC: International Finance Corporation
IFIs: International Financial Institutions
IFRS: International Financial Reporting Standards

K

KfW: Kreditanstalt für Wiederaufbau
KenGen: Kenya Electricity Generating Company

M

MoU: Memorandum of Understanding

O

OCTs: Overseas Countries and Territories
OPEC: Organization of the Petroleum Exporting Countries

S

SADC: Southern African Development Community
SBM: State Bank of Mauritius
SMEs: Small and Medium-Sized Enterprises
SPV: Special Purpose Vehicle

U

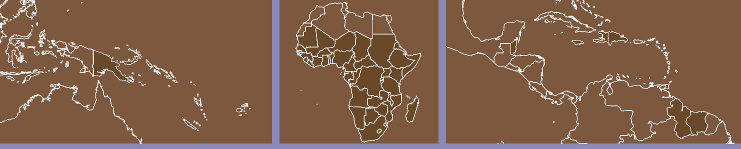
UEMOA: Union Economique et Monétaire Ouest Africaine
UN: United Nations

W

WAEMU: West African Economic and Monetary Union
WAPP: West African Power Pool

Z

ZESCO: Zambia Electricity Supply Corporation



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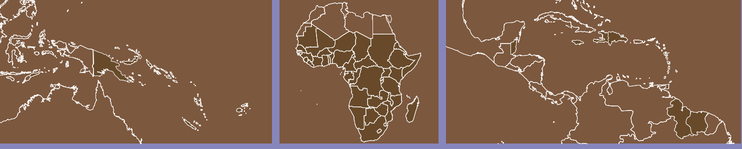
Layout: EIB Graphics Workshop.
Printed in Luxembourg by Imprimerie Centrale.



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European Investment Bank

ISSN 1725-924X

ISBN 92-861-0474-X

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